

How wage escalators boost living costs

PAGE 36

What comes after steel strikes PAGE 33

Global study rates U.S. management PAGE 54

When managers work best PAGE 40

Grow your own marketing talent PAGE 70

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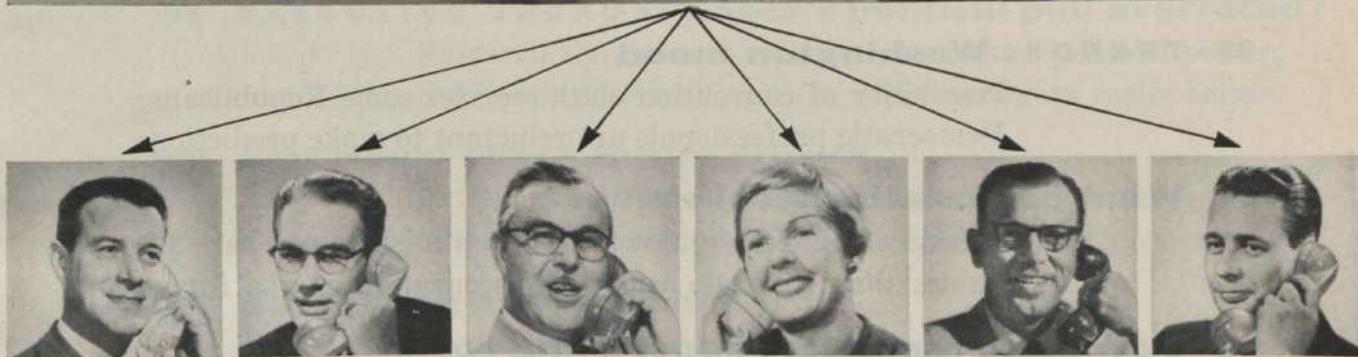
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Nation's Business

September 1959 Vol. 47 No. 9

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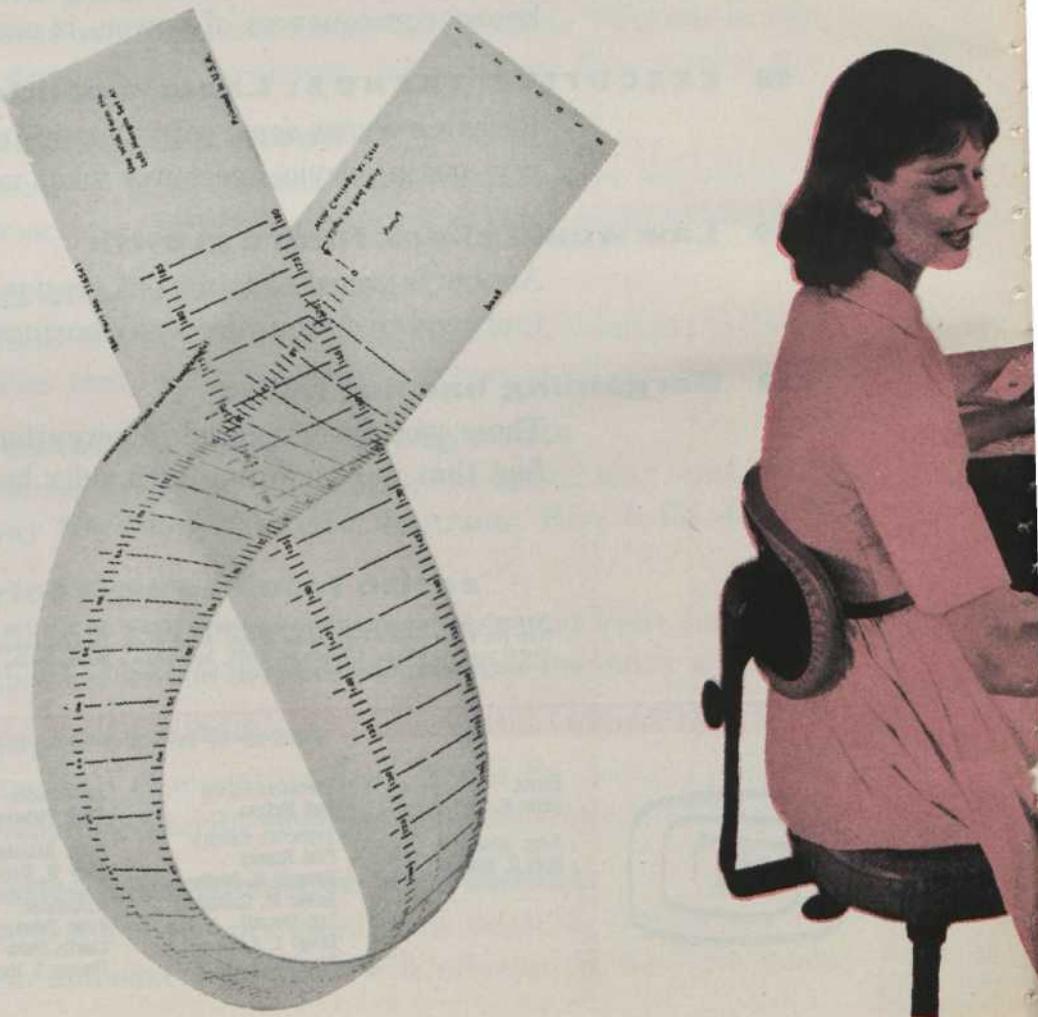
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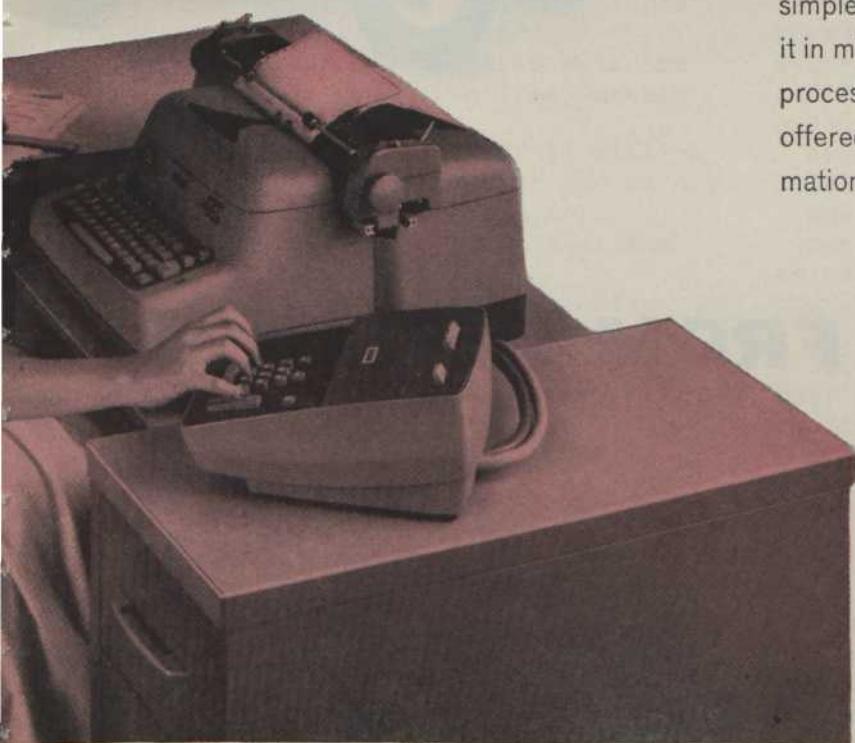


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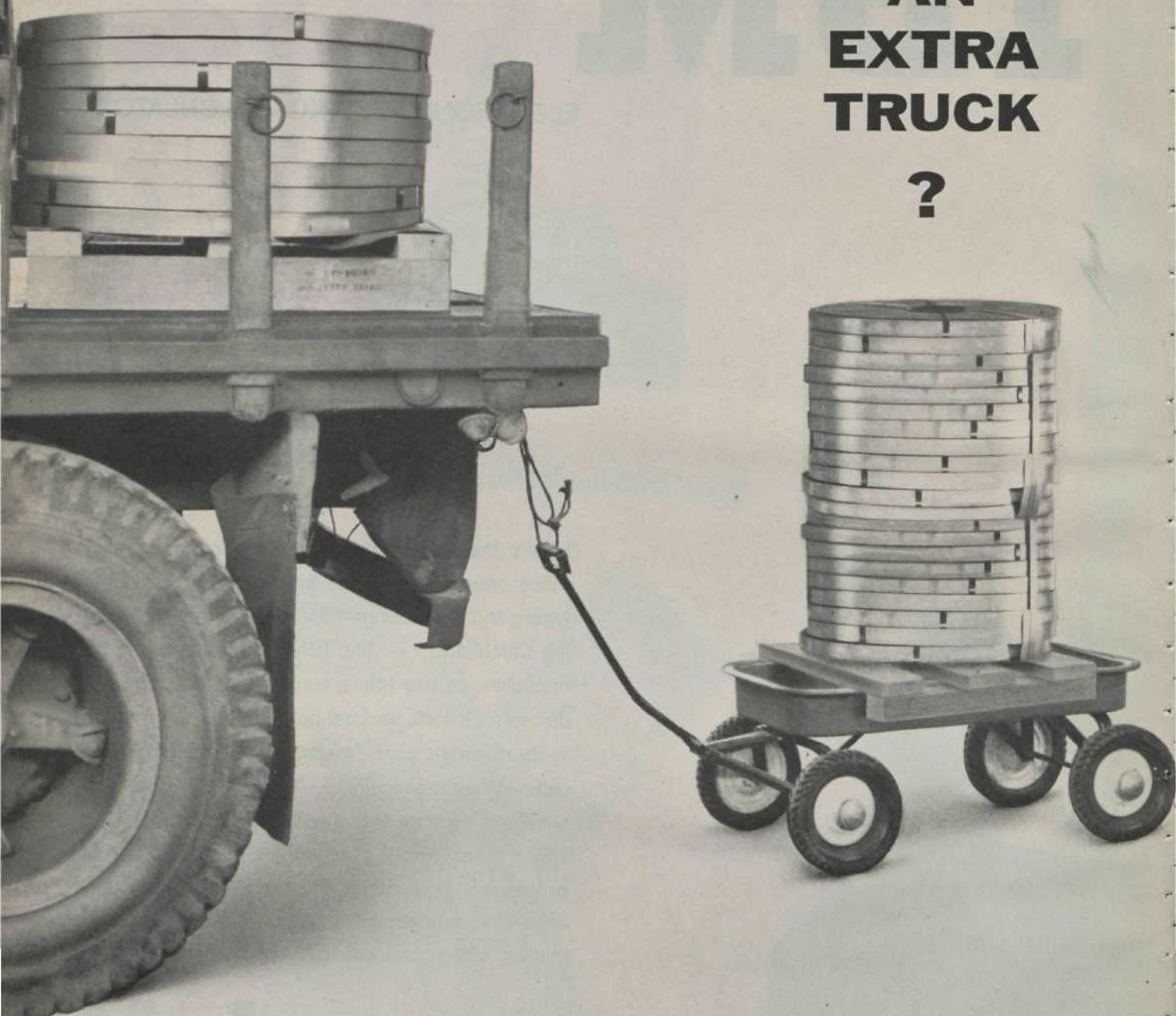


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management's WASHINGTON LETTER

► YOU NEVER SAW AMERICANS with so much cash before.

Altogether consumers are:

Spending \$5.8 billion each week.

Saving nearly \$400 million.

Paying more than \$860 million per week in personal taxes.

► BUSINESS SHOOTS UP at impressive rate.

Next big economic news you'll hear from Washington will be that our economy has reached the half trillion mark.

That's annual rate of \$500 billion for value of all goods and services produced in this country.

Watch for the announcement to come before Christmas.

► MEASURE OF LIVING STANDARDS:

Per capita personal income is headed for a banner year.

Figure is already \$96 higher than a year ago.

It'll easily reach \$1,900 for '59.

Compares with \$1,271 in '49.

► NIKITA KHRUSHCHEV'S visit here this month, President Eisenhower's visit to Russia next month heighten interest in Russian trade prospects.

Government is looking into ways to increase this trade.

Situation is this:

Russia's exports and imports balance at about \$8.5 billion a year.

About \$2 billion of this is with the free world--the rest with Iron Curtain countries.

But Russia buys only about \$3 million worth of goods from us a year and we buy about \$17 million worth from her.

Russia would like to boost what she sells us to \$3 billion.

What Russia wants is to buy modern production equipment from us--chemical plants, etc., as well as consumer items. What Russia would sell us in return is explained on page 108.

U. S. policy prohibits selling strategic items to Russia.

This policy will not be relaxed.

But some trade increase is likely.

If there is a step-up in trade with Russia you can expect it to be in items that will, as one official told NATION'S BUSINESS, "help the Russian people but not the Russian war plants."

► NEW REPORT you'll want to see is:

"What the Communist Offensive Means to American Business."

It outlines political and economic threat, was prepared by committee of business executives and experts on Russia under the chairmanship of Erwin D. Canham, editor of Christian Science Monitor, president of U. S. Chamber of Commerce.

Single copies free from International Relations Dep't., U. S. Chamber, at 1615 H Street NW, Washington 6, D. C.

► OUR RUSSIAN TRADE POLICY is stated this way by Frederick H. Mueller, new Secretary of Commerce:

"Whenever trade with peaceful goods is to our advantage as well as to theirs, we are willing to do more business with the Soviet Union.

"And we are willing to explore new methods of approach to such trade, consistent with our national interest."

More about what Mr. Mueller thinks about trade with Russia on page 64.

Mr. Mueller's views also are explained on issues important to businessmen:

Inflation, economic growth, business recessions, taxes, balanced budget, profits, and control of business.

► WILL PRICES RISE during months ahead?

You've heard they will, you've heard they won't--from high level government sources.

NATION'S BUSINESS checked into this, asked officials, sought explanations.

Here's what we find:

Prices are headed up--but not fast.

There's hardly any doubt about it.

But what about these statements that prices will remain "fairly stable for the rest of '59?"

Explanation that's given:

If price index goes up no more than half a percentage point by Christmas, that's called "fairly stable."

Look beyond "the rest of '59," add up creeping increases for all of '60, you'll see slowly rising price index.

Confidential government projections show possibility of two or three percentage points by end of '60.

► CONSUMER PRICE INDEX pushes costs up, then in turn is pushed up by costs. For

example: Each time price index goes up one point, federal government's costs rise about \$22 million.

That's chiefly because of wage adjustments in defense industries, which add to Uncle Sam's costs.

Same thing happens to business and industry.

Study shows each point rise in price index pushes wage costs up estimated \$200 million per year.

More than four million workers are directly affected, others indirectly.

See "How Wage Escalators Boost Wage Costs." Starts on page 36.

►TAX INCREASES--state and local--will be important force in future Consumer Price Index rises.

Trend already is taking hold.

Recent index rise for one month was traced largely to tax increases in four states.

There's more to come.

Many states and local governments are hiking taxes that will show up this year and next in Labor Department's index of consumer prices.

For explanation, useful look ahead, see page 38.

►PROFITS ARE STILL CLIMBING--but not as fast as other economic indicators.

Look at compensation of employees:

Figure is up from \$154.2 billion in '50 to probable \$275 billion or more this year.

That's 78 per cent rise.

Look at gross national product:

Total worth of all goods and services produced in '50 was \$284.6 billion.

This year's total will be at least 70 per cent higher.

Profits?

Biggest ever--but they'll be up about 18 per cent from '50 level.

Conclusion:

You're doing more business with a thinner slice of economic pie.

More about profits on page 42.

►YOU'RE SEEING NOW how steel negotiations affect other industries.

Many wage talks are being deferred or dragged out to see what happens after steel strike is settled.

These include contract talks in:

Aluminum, copper mining, east coast shipping, meat packing, rubber, can manufacturing, shipbuilding, aircraft, metalworking.

In addition:

Watch railroad negotiations.

Contract expires Nov. 1.

Note: Economic analysis of what comes after steel strikes--on page 33.

►FACTOR TO WATCH in wage talks:

Management wants a freer hand to take cost-cutting steps.

This would allow management to absorb higher pay by holding unit production costs to a minimum.

It's a sticky point.

Union officials won't give up easily.

Probable result:

Plenty of strike trouble ahead.

►OUR LABOR FORCE is growing at rapid rate.

Does this mean higher levels of unemployment in the future?

How many new jobs must be created?

Where do job-making funds come from?

Booklet you'll want to see is:

"Investment for Jobs," prepared by Economic Research Dep't., U. S. Chamber, Washington 6, D. C.

Single copies for 50 cents.

►YOU KEEP HEARING about our population growth.

Here's what you'll hear next:

U. S. population soars to 178 million.

That's headline you'll see about mid-October.

By April--when next census begins--we'll have 180 million people.

►CONGRESS VOTES LESS than President asked for appropriations.

That's what you're hearing about congressional actions on fiscal '60.

Does this mean free-spending forces in Congress have been defeated?

Only temporarily, government official explains.

Key to congressional forces on future spending will show up next year in the supplemental appropriations.

That's what Congress will add to money already appropriated.

Here's how it works:

First session of 85th Congress voted

management's WASHINGTON LETTER

\$64.1 billion for fiscal '59.

Supplemental appropriation of \$3.7 billion was approved later, then Congress added another \$2.8 billion.

That brought total '59 appropriations to \$70.6 billion--\$6.5 billion higher than original figure.

Similar actions can be expected for current year's operations.

Some additional funds are already in congressional works.

House has approved \$610 million.

Senate has okayed \$1.1 billion.

Meaning is that more funds are coming from Congress and these will boost final figure well above requested total.

►HERE'S UP-TO-MINUTE LOOK at fiscal '60.

Year's now two months old, just getting started.

But trends are showing up.

Budget Bureau near end of this month will issue new report showing projected income and outgo.

Both spending and income will change.

Here--in advance--is how that report is shaping up.

First, the background:

Congress was told last January that revenue would come to about \$77.1 billion, spending would be \$77 billion.

About two months ago these estimates were raised to allow for higher revenue than previously expected, also higher spending.

Both figures were still below \$78 billion.

Now they'll be boosted again.

Treasury, Budget Bureau officials will decide by mid-month and you'll see the announcement before month's end.

Trends point to:

Probable \$79.5 billion for revenue, a probable \$78 billion for expenditures.

That means budget surplus for current year is more likely to be in the neighborhood of \$1.5 billion than \$70 million first estimated.

►SMALL AIRLINE OPERATIONS enter new phase.

Until now, many have operated with airplanes obtained from larger airlines.

But larger airlines move to larger planes designed for longer distances.

For smaller companies this means a

new need for expansion capital.

For manufacturing companies like Fairchild Engine and Airplane Corp., it means new market possibilities.

So far, 10 airlines are operating the Fairchild F-27 and 21 corporate purchasers have planes on order for executive use.

►EMPLOYES WHO EARN MORE lose less time from their jobs.

That's shown by new government survey of health.

Essential findings are these:

Employes with average family earnings of \$7,000 and more a year stay away from work an annual average of 5.9 days because of illness, injury.

These with family incomes less than \$2,000 a year average 10.3 days.

Chief health reason workers lose time from their jobs:

Respiratory illnesses (40 per cent).

Next in line:

Circulatory diseases (including heart diseases).

Injuries and their chronic effects.

Digestive diseases (close fourth).

Study also shows:

City children lose 9 days a year from school because of illness, injury.

Farm children average 7.3 days.

►BUSINESS HORIZONS CLOSED?

Not at all.

Look at pulp paper industry.

Business problem:

Soda base pulping produces better pulps but high chemical costs restrict its use.

Solution:

Cut costs by recovering chemicals.

That's what Consolidated Water Power and Paper Company is doing with a new \$750,000 experimental plant.

Business gamble?

Yes--but odds favor being able to produce an improved product.

That'll open new horizons of opportunity for the company's salesmen.

►MY, HOW TIMES CHANGE department:

Total income taxes collected by Uncle Sam in 1913--\$35 million.

At current collection rate, Uncle is taking that much from the people every 7 hours and 12 minutes.

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Business opinion:

Health insurance bill has these weaknesses

YOUR TIMELY ARTICLE on the Forand bill ["Debate Over Health Insurance Affects You," July] was read with interest and appreciation.

The criticisms of the legislation set forth by the American Medical Association are sound and informed. It would be politically impossible to limit the scope of this legislation to those receiving social security benefits, except for a few years. We would all be paying the taxes supporting the system and many would find it financially difficult, or impossible, to pay voluntary health insurance premiums in addition to these taxes.

Since the social security law has been liberalized every two years (election years), it strains credulity to think that men seeking political office would turn their backs on the possibility of offering something to everyone in the form of a universal social security medical system.

It should also be noted that the Forand bill as presently drafted is worse than it need be. By requiring covered persons to enter hospitals as bed patients to obtain diagnostic benefits, it causes people to seek hospitalization to avoid paying personally for X-ray examinations and other diagnostic procedures. We all pay for these wasteful insurance provisions in the form of higher premiums, higher taxes to support government contributions for hospital building, and are asked to contribute more often to hospital building fund campaigns.

If we must have such legislation (and the need will be political, rather than economic or social) let us at least have the best law possible—not one that compounds the fiscal felonies implicit in requiring occupancy of a hospital bed to obtain services that can be just as well provided on an ambulatory basis in doctors' offices.

WILLIAM C. STRONACH
Executive Director
The American College of Radiology
Chicago, Ill.

Future GNP

The article, "Your Stake In Economic Growth" [July], is extremely interesting and, considering the

high volume of statistics, easy to follow.

However, there is one question in my mind that occurs each time I read an article of this type. Am I correct in assuming that your projected production figures are all based on the current value of the dollar? To be specific, if production over the next 24 years were to increase at an average of three per cent per annum, and the value of the dollar were to continue to decline, the resulting GNP at the end of the period would not be 950 billion dollars; as measured by the then current dollar, it would be considerably higher.

E. F. MERCER
Vice President
Revenue Requirements
General Telephone Co. of Kentucky
Lexington, Kentucky

►Right. Current value of the dollar is used.

Inflation blame

I've been looking over your August number this morning and read several articles with much interest, pleasure and general approval, and am looking forward to reading several more.

However, the article "Inflation: Where Blame Belongs," I would take issue with, to some extent. It's true, I believe, that the steep increase in wages has been responsible in part for inflation in prices, but it's also my belief that big industry has lain down with big labor and offered only token resistance (or waged sham battles) against these constantly recurring big wage increases.

If my ideas on this subject are correct, I feel that your writer wrote from a very biased viewpoint an unnecessarily strong condemnation of labor's part in the matter. Can't we be more educational in our approach, and less truculent?

HENRY Y. SMITH
President
The Columbia Telephone Co.
Columbia, Pa.

Boosting wage costs

"Old Laws Boost Wage Costs" in the August issue is not entirely a true presentation of the problem. Any evil arising out of the Davis- (continued on page 12)



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Bacon Act and the Walsh-Healey Act comes from the administration of them, not from the laws, *per se*. Contrary to the thinking expressed, the Fair Labor Standards Act will not serve adequately to control the problems in this area of government.

Labor leaders and industrial leaders cannot be blamed for using these laws, with the cooperation of the federal agencies, to their advantage, because, after all, they were enacted to protect the legitimate contractor and the working force in the area in which they were to be employed and to prevent "chiseling" contractors from gouging the government (meaning taxpayers) at the expense of both the employer and the employee in the area in which federal work was to be done.

Repeal of the Davis-Bacon Act would not be a panacea, if in fact repeal is desirable, because the principle of that law has been included in many other federal laws, state laws and city and county ordinances. Without the protection of the principle of these laws, the labor force would resort, necessarily, to the strike weapon to win its rights. This can be much more costly, much more injurious (and the contractor may ultimately suffer), than the present administration of these laws. Particularly would this be true if the contract is vital to national welfare and security.

Not all the "black" is on labor. I am certain that some industrialists have used, or at least tried to use, the Walsh-Healey Act as a means of stifling competition. Experience shows that both management and labor have sometimes asked for a little more than the fair administration of these laws, but, when a fair decision was made in the administration of the act, both accepted the decision without serious complaint.

KENNETH D. BERGER
Attorney at law
Milwaukee, Wisc.

Your article entitled "Old Laws Boost Wage Costs" was very timely as our local post office wanted bids on major repairs. Upon inspection of the specifications it was found that wages set under the Davis-Bacon Act were 25 per cent to 50 per cent higher than the local prevailing wages. Therefore, local contractors were not willing to jeopardize future construction labor cost to perform this job. This is directly reverse to the conditions prevailing when the law was passed and is a good example of why it should be repealed.

KENNEDY QUICK
AQS Lumber Co., Inc.
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"Getting out a mailing used to be a major headache. To get the envelopes stuffed we shanghaied girls from other departments, brought in extra people, piled up overtime, and got behind in our regular work. But ever since we bought that small PB folding and inserting machine, our regular girl does the mailing in her spare time."

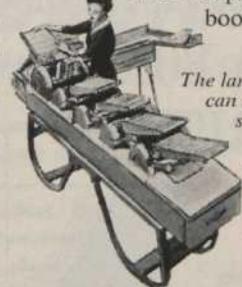
For special mailings or even daily mail, Pitney-Bowes' new Model 3300-FH is a great time saver and cost cutter. With this combined folding and inserting machine 500 single sheet enclosures can be folded and stuffed in envelopes in eight minutes.

It can be used for invoices, statements, price lists, bulletins, cards, even stapled

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LOOKING AHEAD

Why you'll need older workers

THE OLDER WORKER could prove to be one of your most valuable assets in the competitive business world of the 1960's.

Through the years many companies have operated on the assumption that a young worker is a better all-around investment than an older one.

We have tended to equate advancing age with declining productivity and diminishing efficiency.

Both of these assumptions are false, and even dangerous, if they are permitted to sway your personnel planning.

Here's why:

Continuing research by the Bureau of Labor Statistics shows that a substantial number of manufacturing workers over age 40—about 45 per cent—produce more per man-hour than their younger counterparts.

It's also expected that the next phase of BLS study will demonstrate conclusively that older office workers are as productive and efficient as their younger co-workers.

All of this means that if you arbitrarily reject workers over 40 or 45 years of age in favor of younger men and women you may be bypassing superior performers and an opportunity to reduce your unit labor costs. This problem will become increasingly important in the coming decades because the average age of the work force is steadily climbing.

Employers have found that older workers have many significant attributes to recommend them, such as: experience, greater dependability, and mature appreciation of job responsibility.

To tap the pool of potentially valuable older workers successfully, here are four basic principles for you or your personnel director to follow:

- Evaluate and hire workers on an individual basis rather than by rigid rules such as inflexible age limits.

- Test more systematically for

the specific skills related to the jobs in your firm or plant. Tests designed for mass-hiring will fall short.

- Test for performance characteristics such as speed, dexterity and strength, if necessary. Don't assume poorer performance because of age.

- Study the past work history and personality of each employee carefully. Factors other than age may be more important in his performance.

BLS data on production workers analyze the performance of approximately 10,000 employees in 26 manufacturing firms in the footwear and furniture industries.

These industries were chosen because the make up of their labor force was most representative of manufacturing.

Designed and supervised by economist Jerome A. Mark, the on-the-job studies compare the performances of older and younger workers. They give statistical support to labor force experts who, on the issues of speculation, laboratory experiments, or opinion surveys, have said that older workers can be employed profitably.

The productivity data mark out several basic patterns of work performance which point the way to successful employment of older workers.

When the workers are classified according to age, the output per man-hour of both men and women increases as the 35-44 age group is approached. After this, average productivity declines slowly. The following table gives the picture by age group:

Age group	Index of output per man-hour	
	MEN	WOMEN
	per cent	per cent
Under 25	97.0	95.6
25-34	101.0	103.8
35-44	100.0	100.0
45-54	97.2	98.8
55-64	93.0	93.0
65 and over	83.7	88.0

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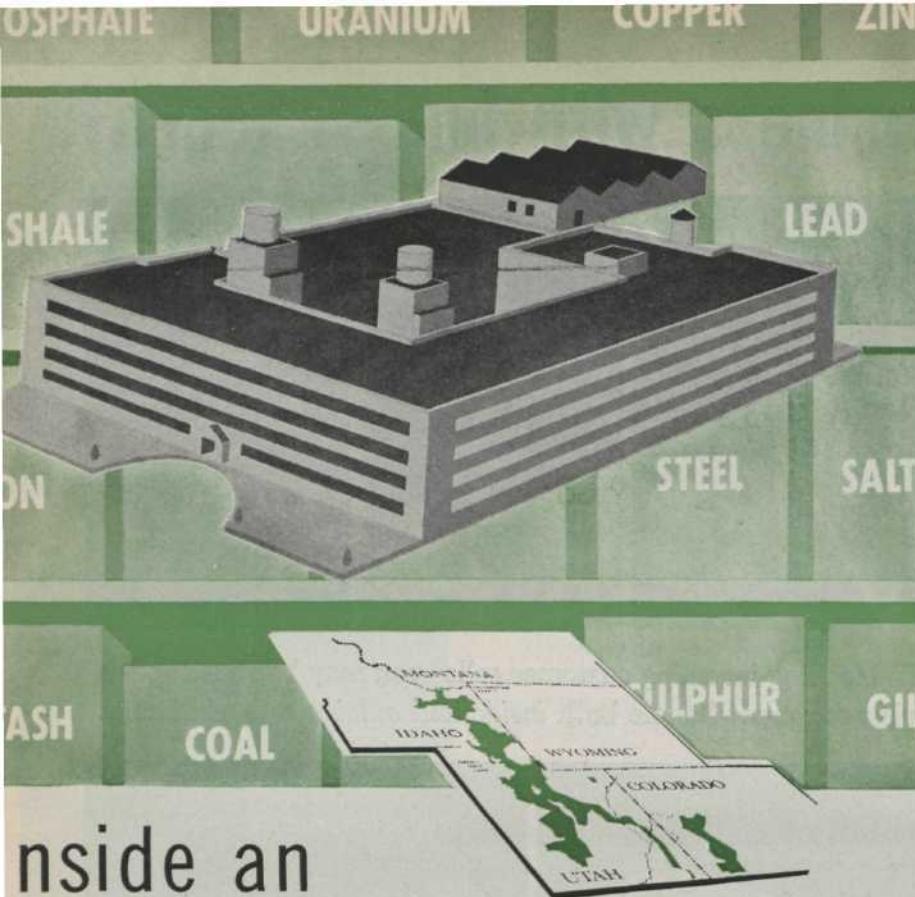
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OLDER WORKERS

continued

groups are fairly small. They are in the neighborhood of only eight per cent of the average productivity of the 35-44 age group, which is the age bracket used as a base for comparison.

When the workers are further classified by type of operation and pay level, the same pattern prevails. The productivity of both machine and hand operators, male and female, rises until age 35-44 and then falls slowly.

There is no difference in performance between lower as opposed to higher paid workers, or between men and women. Therefore, age bears no relation to type of work or pay level.

Most important, within each age group there are wide differences between individual performances. Although this points up the need for more careful selection in every age bracket, it is particularly significant for formulating employment policies for older workers.

What it proves is that substantial numbers of these older workers produce more efficiently than the younger workers.

Their record is above the average of the 35-44 age group. An impressive 47 per cent of older women workers in the 45-54 age group achieved a larger output per man-hour than the average of younger workers.

Male workers chalk up almost as impressive a score. The fact that the comparative work performance of older women is even better than that of older men stands in stark contrast to the fact that employment discrimination because of age starts earlier for women. Even among the 55-64 age group, approximately one third of the work force produced more per hour than the average for the 35-44 group.

A further finding is that older workers miss work less than younger workers. There is virtually no difference in attendance rates between age groups.

In addition, there is only very slight variation within age groups. This explodes the idea that older workers lose more time because of the infirmities of aging.

As the study we have described shows, older workers can be very efficient.

In a 3,000-company survey, 92 per cent of the employers queried reported that their older workers

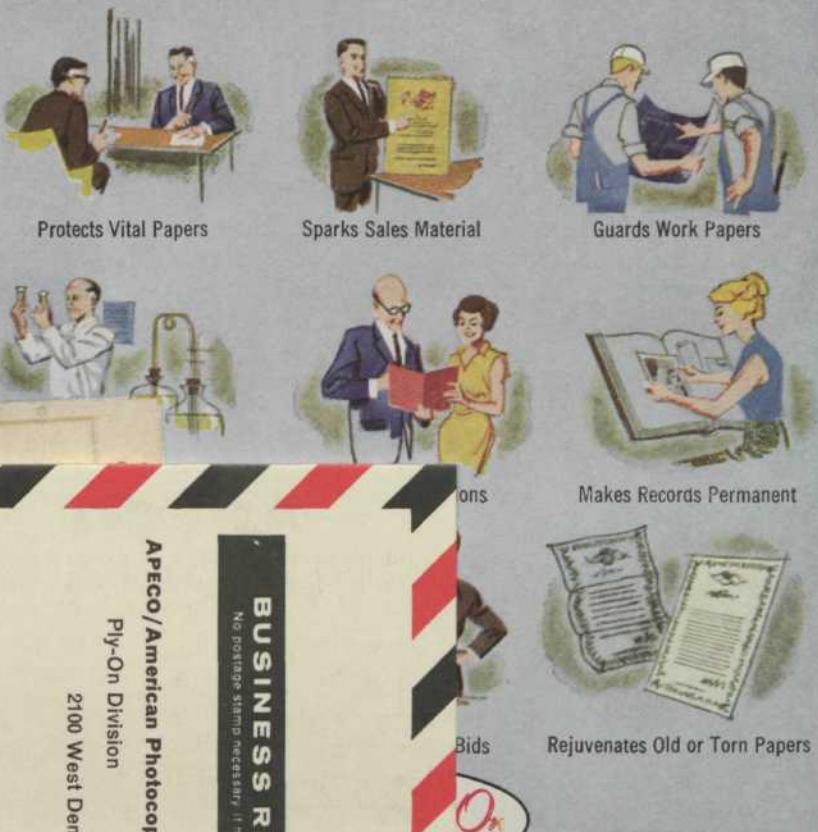
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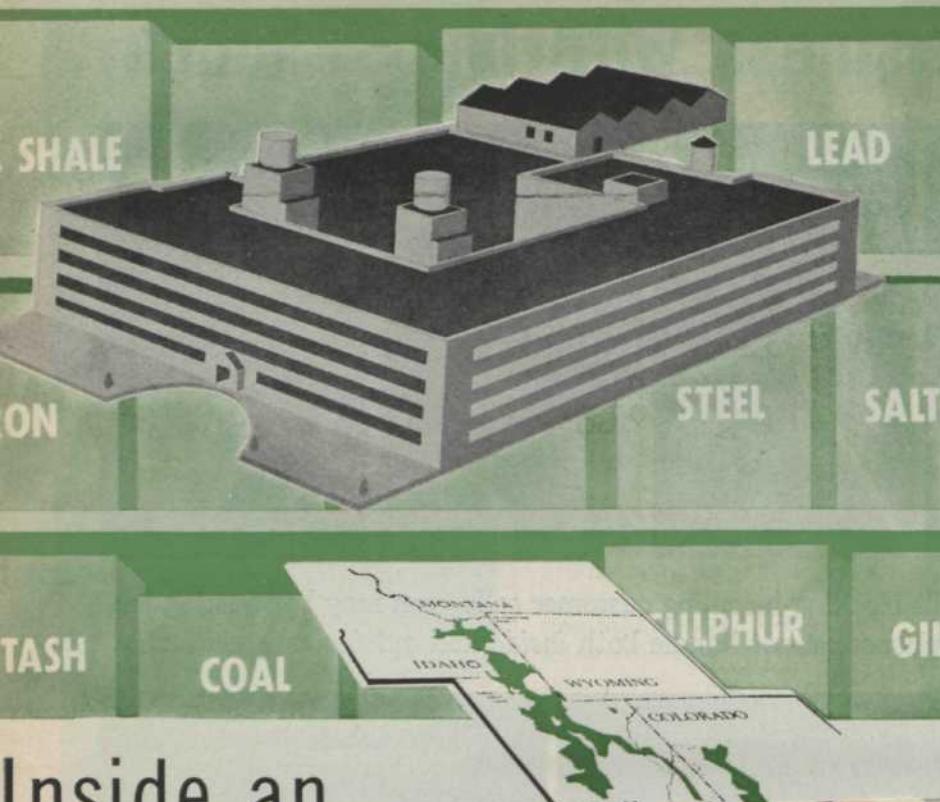
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OLDER WORKERS

continued

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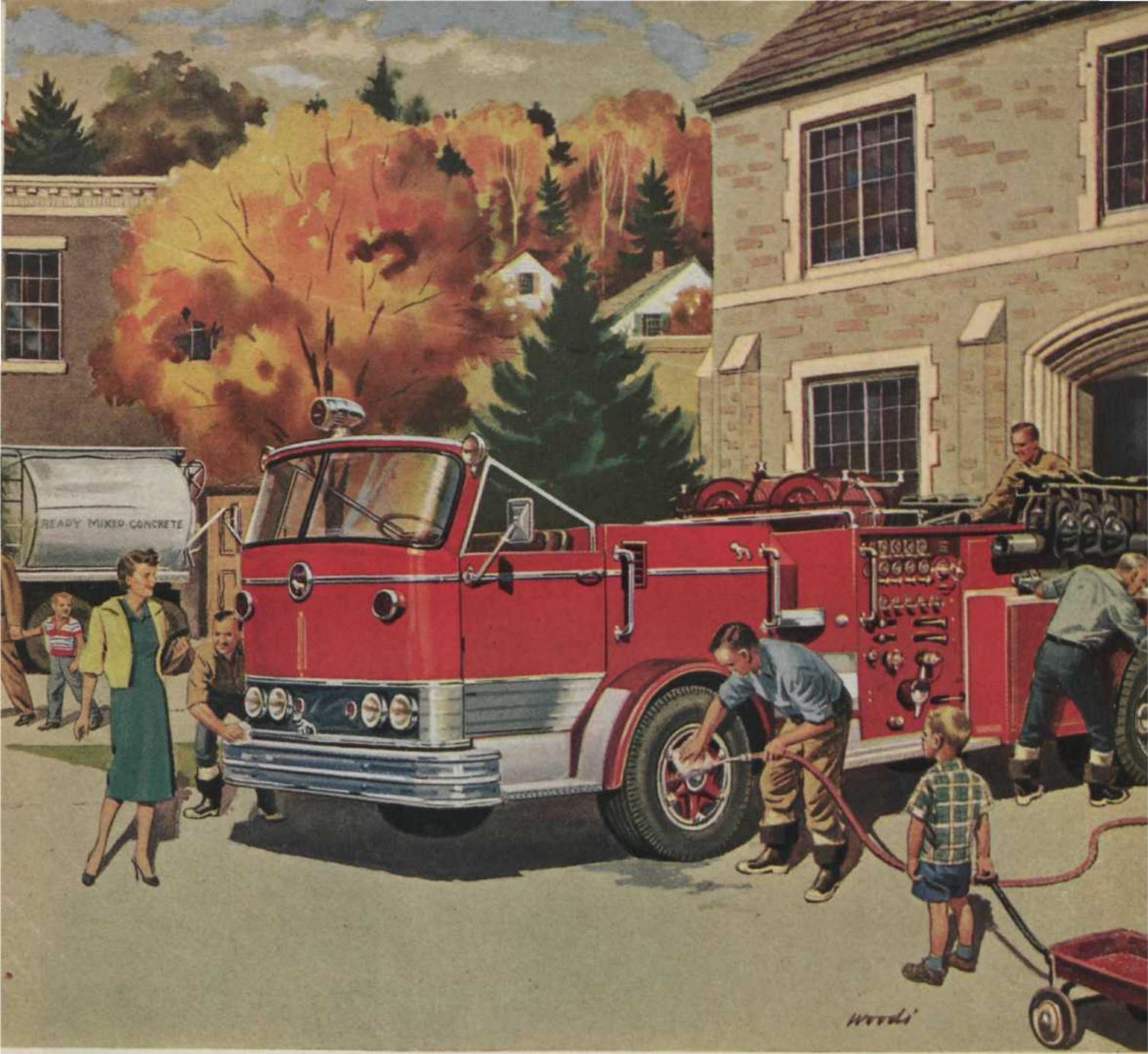


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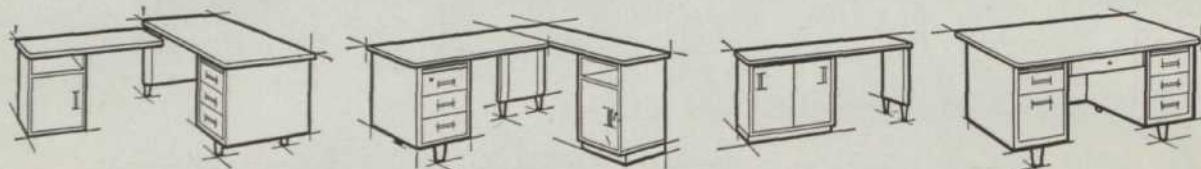
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OLDER WORKERS

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were equally or more efficient than the younger workers.

Over-40 workers have been found to be particularly valuable in retailing establishments.

The Department of Labor has learned that older workers can be trained or retrained as easily as younger workers.

Training techniques have improved dramatically in recent years and can be utilized effectively with older workers.

Increasing attention is being paid to the problem of placing older workers and many placement services are now especially qualified to help you find superior older workers. A lot of work is being done, too, to break down arbitrary age barriers to employment. It is becoming evident that many of these obstacles are poor policy. For instance, discrimination because of age starts earlier for women. Yet, performance data show that women have a slight edge over men in comparative performance by age. On the plus side, there are a lot of differences among employers in their older-worker employment policies. Some companies have pioneered and even given preference to older workers in hiring.

Human skill is a valuable commodity—as valuable as natural resources. As one authority in the field quipped, it's "long-term shortsightedness" to turn down good employment prospects because they are over 45 years old.

Business leaders are coming to recognize that they can help the economy as well as themselves by hiring older workers.

Unions, too, are becoming more sympathetic to contracts which encourage job opportunities for older workers.

One of the stumbling blocks to hiring older workers has been company pension plans. Employers are coming to realize that plans can be modified and adapted to the hiring of older men and women.

Many older employees are in a position to take seasonal and part-time work. They are able to do this—and sometimes prefer it—because their family responsibilities have lessened and in many cases they have some other sources of income, although this may not be enough for all of their living expenses. You may find it profitable to use older workers in this way.

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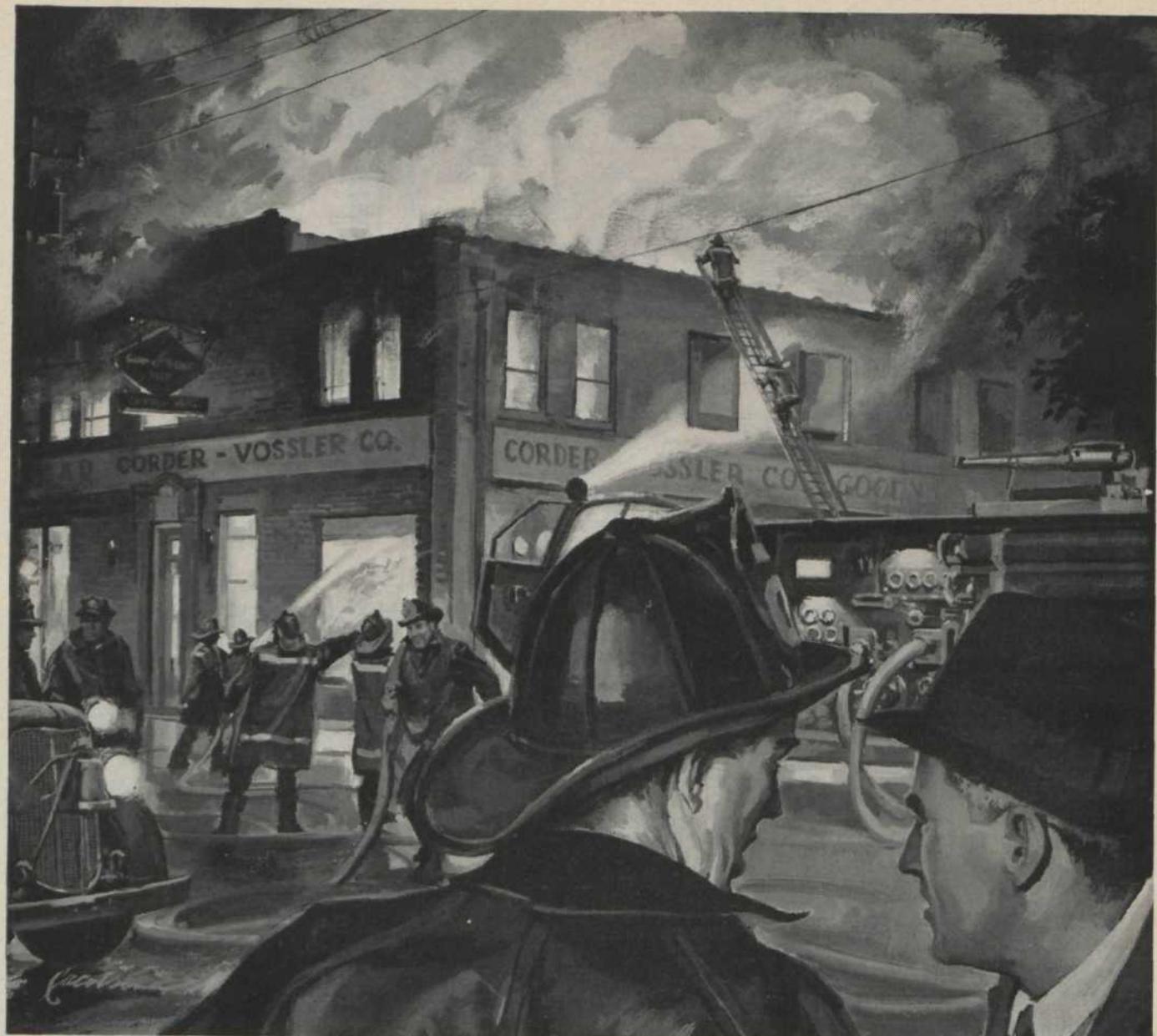
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The state of the nation

BY FELIX MORLEY

Schools, like other services, face market test

THIS YEAR the opening of school finds public education throughout the United States in an unusually chaotic condition. Not since the Civil War has there been so much diversity of outlook in different parts of the country.

At one end of the scale, in San Diego County, Calif., arrangements go forward for constructing a wholly new state university, to accommodate 25,000 students, in what is now desolate, unpopulated country northeast of the big naval base. Around this University of California at La Jolla will be a planned

ways sketched, electricity load calculated and the Department of Defense persuaded to move overlapping parts of a military reservation to free more land for the undertaking.

And there is good reason to expect that swiftly growing southern California will push right ahead with this grand design. The area expects an increase of well over 25,000 college students during the decade of the '60's. So, in a combination of natural exuberance and unusual forethought, the new university is being planned from scratch, to make sure that each part of the community will fit functionally and harmoniously with others, as the project develops.



Yet at the same time, on the other side of the country, Prince Edward County, Va., is preparing to close down all its public schools. No appropriation has been made to sustain them during the fiscal year that opened July 1. Unless the Supreme Court permits a stay of integration in this case, "there will probably be no public schools in the county for many years to come." Those are the words of the local school board.

As a result of the refusal to appropriate for public schooling, the Prince Edward County budget is cut to \$211,000, from \$940,000 a year ago. As has happened in other southern communities, much of this saving will be channeled into new private schools which, with most of the former teachers, will carry on for white pupils. Experience elsewhere does not suggest that this substitution can be expected to work as well for colored children.

The situation in this southside Virginia county shows what must be expected in many southern communities as various evasive devices are judicially overruled as inconsistent with the Supreme Court decision of May 17, 1954. For, while that ruling said that there must not be racial segregation in the public schools, it did not and could not say that there must be public schools. That is a matter for the states themselves to decide—and two of them have now repealed their compulsory education laws.

At first glance this plan for the contraction of pub-



California plans to turn barren hilltop into university community serving 25,000 students

residential community—a university-oriented city—whose population, in a quarter century, is expected to rise from zero to 100,000.

Town and gown are working cooperatively in this ambitious educational and residential scheme. A handsome book of topographical plans, relating the layout of the projected university city to the terrain, has been prepared. Here, on what is now a barren hilltop, will be a municipal park; there, in an arroyo currently thick with sagebrush, will be a tree-lined shopping center. Streets have been plotted, new high-

lic education in the South seems as depressing as that for its rapid expansion in the West is stimulating. But the subject bears further examination, especially when it is realized that the West wants federal aid for university building, while the South proposes to maintain as much schooling as its own resources will permit. And there are other factors worthy of consideration.

• • •

None of the world's great universities—such as Oxford, Paris or Pavia in Europe; much younger Harvard or Yale in this country—were planned to be what they are now. Fame came to them not because accommodations were built in advance for thousands of students, but because great teachers served to bring those thousands in. For education, as for business, it is the quality of the management rather than the magnitude of the layout that spells success. Enlargement comes after, not before, the product gets its market test.

At the lower end of the educational scale, the cart must also be kept behind the horse. When schooling is well conducted, there is certainly strong argument, in any democratic society, for making it both free and compulsory for all. But the proviso is necessary. The case for education at the taxpayers' expense depends on the supply of a brand satisfactory to the taxpayers. And not many parents are satisfied with the brand advocated by that high school principal who writes:

"Through the years we've built a sort of halo around reading, writing and arithmetic. . . . When we come to the realization that not every child has to read, figure, write and spell—that many of them either cannot or will not master these chores—then we shall be on the road to improving the junior high curriculum."

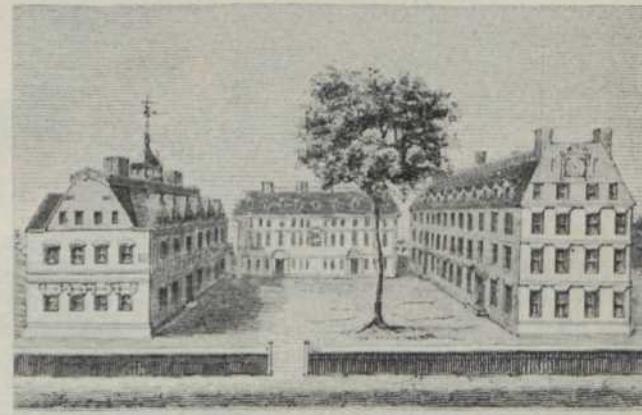
In addition to this downgrading of content there is an obvious tendency, in some public schools, to work a socialistic philosophy into the time saved by dropping the alphabet and multiplication table. This propaganda purpose is often frankly admitted at conferences of so-called "educationists," as illustrated by this excerpt from the "proceedings" of one important group:

"A dying laissez-faire must be completely destroyed and all of us . . . must be subjected to a large degree of social control. A large section of our discussion group, accepting the conclusions of distinguished students, maintain that in our fragile, interdependent society the credit agencies, the basic industries and utilities cannot be centrally planned and operated under private ownership."

It is to be hoped that these attitudes are not typical, and with the limelight of publicity they are probably diminishing rather than gaining in strength. Nevertheless, examination of the social science and history textbooks used in many public schools is something of an eye-opener. And the combined displacement of fundamental learning and traditional Americanism is at least sufficiently pronounced to

raise the issue of whether such education should be compulsory. It is deplorable that community action to close the public schools should have been sparked by racial prejudice. But there will be gain as well as loss if the movement stops a tendency toward that educational brainwashing of which many parents and employers are now uneasily aware.

When labor unionism became compulsory, an arrogant attitude—completely contemptuous of community welfare as a whole—soon began to develop in a considerable section of labor leadership. It is no accident, but rather a consequence of compulsion as such,



HARVARD COLLEGE, 1720.

Present great schools had small beginnings, grew when great teachers brought them fame

that something of the same attitude has cropped up in pedagogy since schooling was made absolutely mandatory for all, in some states up to age 18.

The arrogance characteristic of a protected monopoly has been retarded in the field of education largely because control is not yet centralized there. But it has become perceptibly stronger as the drive for "federal aid to education," meaning eventual bureaucratic direction of education, has gained ground.

The assumption that compulsory public education was here to stay is the essential basis of this centralizing campaign. Just for that reason it may be checked by the drastic action of those southern communities which are showing themselves prepared, as a last defense of local autonomy, to close their public schools. Although the measure has aspects of desperation it is therefore not less a salutary warning to those pedagogues who have too easily been assuming dictatorial power.

On the other hand, the mere planning of a great university, in what is now a desolate near-desert, does not necessarily mean that a great university will be established there. That will depend on the quality of the instruction rather than on the quantity of bricks and mortar. It will also depend on whether the community values the development sufficiently to do its own financing, instead of turning to Uncle Sam for aid.

Moreover, in this diversity, from California to Virginia, is strength, not weakness. A federal republic where one county can plan a huge new university, while another is closing its public schools, is certainly not yet regimented.

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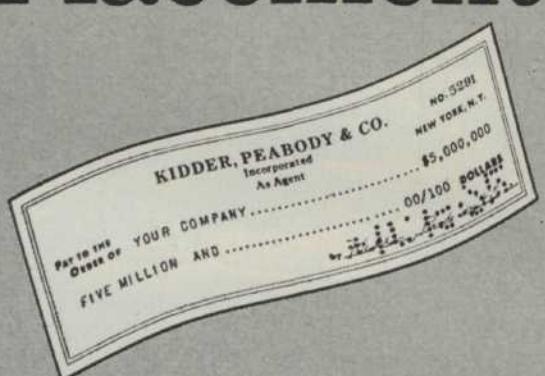
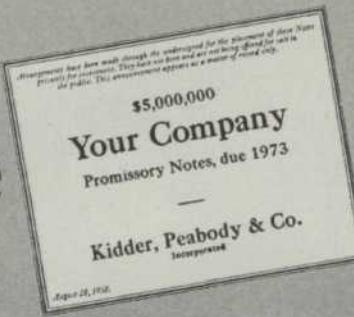
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Washington mood

BY EDWARD T. FOLLIARD

Republicans may split; Democrats puzzled

ABOUT THIS TIME next year, the curtain will rise on America's greatest political drama. The parties will have chosen their nominees in July; there will have been a lull in August after the excitement of the national conventions. Then will come Labor Day and, by tradition, this will see the kick-off of the 1960 battle for the presidency.

Who will they be, the Republican and Democratic nominees for the nation's most coveted office?

A Washington reporter finds it much easier to get answers from the Republicans than from the Democrats. The supporters of Vice President Richard M.

hope so; they have a horror of a Nixon-Rockefeller clash that might split the party. There is no certainty about it, but that hope could turn out to be a vain one. Governor Rockefeller has let it be known that he will announce his decision some time this fall. In the interval he will test the political winds and try to determine if he can run a better race in 1960 than Vice President Nixon. In any event, the New Yorker says he is not interested in the vice presidential nomination.

Sen. Thruston B. Morton of Kentucky, chairman of the Republican National Committee, is proceeding on the assumption that there will be a Nixon-Rockefeller battle in Chicago.

"I have to assume that there will be a contest," Senator Morton says, "and I have to try with my associates on the National Committee to set up a framework for that contest so that it will be fair to all sides—so that whoever loses will feel that he got a fair shake."

If you ask a Democrat hereabouts what man he thinks will win the Democratic nomination in 1960, the chances are that he will come back at you with the same question. Truly, it is a wide-open battle; so much so that most of the Democratic professionals are reluctant to talk about it publicly. They don't want to get out on any limbs that might be sawed off.

Talking on a don't-quote-me basis, one of the shrewdest of the Democratic pros recently agreed to project himself ahead to the Los Angeles convention and to try to visualize what will happen.

"I think Kennedy (Sen. John F. Kennedy of Massachusetts) will lead on the first ballot," he said. "Kennedy may have 200 or 250 delegates voting for him because he is going out to fight for them in the primaries. But something like 700 delegate votes will be needed to win the nomination, and I don't think Kennedy will be able to round up that many."

"If Kennedy fails, I think an effort will be made to put over Symington. (Sen. Stuart Symington of Mis-



Republican convention planners prepare for Nixon-Rockefeller contest but fear a clash

Nixon tell you that it is all over, that the Californian is as good as nominated to be the Republican standard-bearer. Sen. Hugh Scott of Pennsylvania, for example, predicts that Mr. Nixon will be chosen at the Chicago convention "possibly by acclamation before the entire roll is called."

Some usually well posted Republicans are convinced that Gov. Nelson A. Rockefeller of New York, whom they regard as the Vice President's only serious threat, will not even throw his hat in the ring. They

souri.) If he can't make it, then I think the convention will turn to Adlai Stevenson."

A word about Senator Symington. He is not as well known as some of the others who are being boomed for the Democratic nomination. Moreover, some of his fellow senators are not very keen about him—maybe because they honestly don't think he is White House timber, maybe because they envy him. But many of the pros, and especially those backing him, say that he has "availability" written all over him.

Senator Symington is 57, wealthy, and looks good on a campaign poster. He seems to have appeal in both the North and the South; he was born in Baltimore, Md., and had ancestors on both sides in the Civil War, his paternal grandfather having been a major in the Confederate Army and with Lee at Appomattox. He also seems to appeal to both business and labor. He made a fortune as a man able to "cure a sick business," and in doing so managed to smooth out union strife.

The Missourian was running the Emerson Electric Manufacturing Co. in St. Louis, which turned out airplane armament in World War II, when President



Don't-quote-me prediction: If Kennedy and Symington fail, Stevenson will be choice

Truman summoned him to Washington in 1945. He served in a number of posts, and was the first Secretary of the Air Force. In 1952, having returned to Missouri, he defeated James P. Kem and took over his seat in the Senate.

He won by 150,000 votes, despite the Eisenhower landslide that year. In 1958 he won a second term by an even greater margin.

Senator Symington usually votes as the Democratic leadership wants him to vote, but he has been known to kick over the traces.

Thus far, to judge from the public-opinion polls, there is no great clamor for Senator Symington. The leader in the Gallup Poll continues to be Senator Kennedy, with Adlai Stevenson right on his heels.

Former Governor Stevenson's best chance for the Democratic nomination lies in the possibility of a convention deadlock involving Senators Kennedy and Symington, and also Sen. Lyndon B. Johnson of Texas and Sen. Hubert H. Humphrey of Minnesota.

Some old-timers think a deadlock is more than a possibility—that it is inevitable.

The pro-Stevenson sentiment among rank-and-file Democrats is, in many ways, a remarkable phenomenon. Here is a man who has twice been his party's nominee for President, and who has twice been defeated—the second time worse than the first. He has said over and over again that he is not a candidate for the 1960 nomination, that it is time to choose another. Not only that, but he has said flatly and publicly that "I will not be nominated." Yet the Stevenson-in-'60 boom goes on.

What is the explanation?

It would seem to be that, even in losing, Adlai made a deep and lasting impact on millions of Americans. His admirers still regard him as the most brilliant man in the Democratic Party, one they feel would do well in the White House. They see no one in the small army of presidential hopefuls in the Senate who tops the Illinois statesman, and none in any of the governors' mansions either.

Hardly any of the Democratic pros challenge former Governor Stevenson's ability or brilliance. What bothers them is an intangible. They say that he just doesn't seem to have any luck—and they attach great importance to luck.

Suppose, though, that Adlai is again chosen as the Democratic nominee: How would the Republicans feel about it? Well, they don't talk openly about such a thing, but there is good reason to believe that they would not be at all unhappy about it.

This brings up the possibility of a strange situation in 1960, one in which both parties would profess to be pleased by what happens at the rival conventions.

The Democrats say that they are rooting for Vice President Nixon. They read that he is the choice of 85 per cent of the Republican professionals, that he leads Governor Rockefeller by three to one in the Gallup Poll, and that his stock went up sharply after his Russian tour, and they are happy—or, at least, they say they are.

Gov. G. Mennen (Soapy) Williams of Michigan gave the explanation on a television show recently. He said that Governor Rockefeller would be harder to beat than Vice President Nixon. Others have said the same thing, on and off the record.

Their reasoning—or so they say—is that the Vice President would be able to poll the Republican vote, but not much more, whereas Governor Rockefeller might do what he did in New York last year against Averell Harriman—capture not only Republican votes, but Democratic and independent votes as well.

Vice President Nixon is, of course, aware of this kind of talk among the Democratic professionals. He has known about it for a long time, and talked frankly about it to Earl Mazo, author of "Richard Nixon, a Political and Personal Portrait."

Mr. Mazo says in his book that the Vice President wonders why "the Democrats make me their major target if, as Mr. Truman says, I am the easiest to beat." Mr. Mazo, doubtless reflecting the Californian's own thinking, goes on to suggest that the real reason is that the Democrats fear that Mr. Nixon would be the toughest opponent for them in 1960, not the easiest.

Bob discovers a new kind of safety valve



Bob Steele was happily content, reclining on his spine,
Just lolling to the music of his turbines' whirry whine.
"It's money-making music," Robert smiled. A mighty crash—
A boiler blew, deflating Bob and turning off the cash.



His Travelers man rushed in to find our hero deep in gloom.
"Our maintenance was adequate, why did the boiler boom?"
"Fret not," replied his trusty man, "if Lady Luck was mean;
Your *total* loss is covered under Boiler and Machine."



"We pay the costs to make repairs, to clean up all the mess,
Your fixed expenses, normal profits are assured, no less!
So while the work progresses, navigate the bounding main."
"A marvelous idea," Robert cried, "auf wiedersehen!"



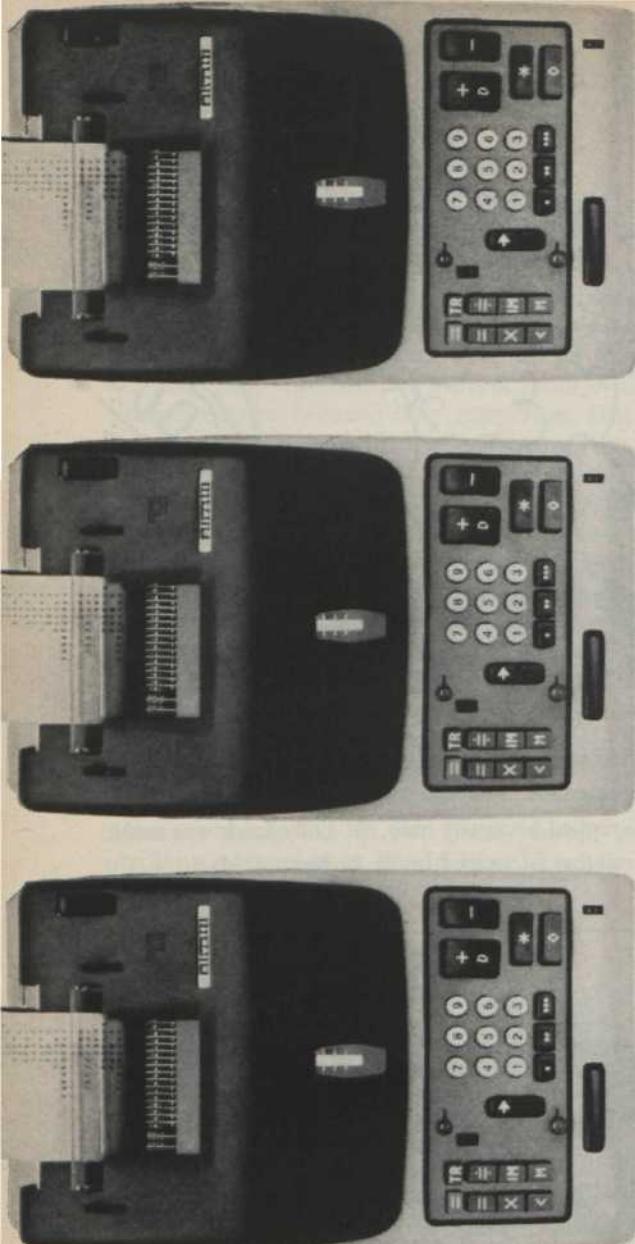
Now Bob is back, his plant intact, his future glad and free;
Cash registers and turbines join in cheerful harmony.
Why let ill fortune ruffle you? See Travelers 'fore it pops—
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WAGE OUTLOOK

WHAT COMES AFTER STEEL STRIKES

Study of past will help you focus on future

FEARS OF THE IMMEDIATE effects and aftereffects of steel strikes are, as a rule, considerably exaggerated.

This is so because although steel is a giant industry it accounts for only about three per cent of our national economic activity. It is interesting to note that:

The Federal Reserve Board Index of Industrial Production gives steel a weight of 3.05 per cent.

The Bureau of Labor Statistics Wholesale Price Index gives finished steel a weight of 3.8 per cent.

In 1957, total sales of leading steel companies aggregated \$15.6 billion. (This total includes a substantial amount of nonsteel activity such as shipbuilding, cement, and coal mining.) Total corporate sales for the economy in 1957 were \$667.3 billion; the steel industry, including its nonsteel activities, accounted for only 2.3 per cent of this total.

Moreover, various factors suggest that the present upward movement in the nation's economy will continue and that the steel strike will provide only a momentary interruption to the advance.

Of particular importance in this prospect is the rapid rise in expenditures for new plant and equipment. The first nine months of business recovery occurred with no stimulus from this area. The Securities and Exchange Commission—Commerce Department projection for the last half of 1959 is for a rise to \$33.7 billion. Surveys of capital appropriations by the National Industrial Conference Board portend still further expansion in 1960.

In addition, disposable personal income continues to climb, pushing up retail sales. And, although federal spending should show little change in the months ahead, state and community spending continues to increase at a \$2 billion to \$3 billion annual rate. In

spite of the adverse effects of tight money, some leveling off in residential building, and a slowing up in our export trade, the forces making for expansion still dominate in the economy.

A steel strike does have an immediate and significant impact upon some sectors of the economy (coal mining, railroads, iron ore, Great Lakes shipping) and upon some communities (Pittsburgh, Gary, Birmingham, for instance). A long strike may also have a significant adverse effect on important steel-consuming industries such as appliances and automobiles.

Nevertheless, the impact of a steel strike upon the entire economy is relatively small—unless it is excessively protracted. A review of the experience during and after the 1952 (54 days) and 1956 (34 days) steel strikes illustrates this point.

The 1952 strike

The 1952 steel strike lasted more than seven weeks—from June 2 to July 26. Ingot production averaged 2,026,000 tons a week in the four weeks before the strike. The total fell to a weekly average of 345,000 tons during the strike—a total loss of almost 13 million tons. After the strike ended, steel output rose rapidly and by September reached a new record level. The rise continued until the week of March 16, 1953, when output was 2.3 million tons.

The Federal Reserve Board Index of Industrial Production was 119 (seasonally adjusted, 1947-49=100) in May 1952 and dropped to 115 in July. Industrial production, excluding steel output, showed only minor changes. Immediately after the strike, total indus-

AFTER STEEL STRIKES *continued*

trial production advanced to the new high level of 123 and then continued to advance vigorously until the following May, when a peak of 137 was reached.

Changes in gross national product show that the effect on the entire economy was minor:

1952	GNP Annual Rate (billions)
First quarter	\$341.0
Second quarter	341.3
Third quarter	347.0
Fourth quarter	358.6

In the second quarter of 1952, which included one month of the strike, gross national product changed only slightly from the first-quarter level. In the third quarter, which included almost four weeks of the strike, the total moved forward again. The rise continued until the second quarter of 1953, when the recovery reached its peak and gross national product was at the annual rate of \$368.8 billion.

It is also instructive to review the impact of the steel strike on total wage and salary payments. Some rail, coal and steel workers are laid off during a steel strike. What was the total impact of these layoffs, plus the strike, in terms of wage and salary payments?

1952	Wage and Salary Payments		
	TOTAL	COMMODITY- PRODUCING	ALL
		INDUSTRIES	OTHERS
May	\$181.8	\$78.7	\$103.1
June	182.8	78.2	104.6
July	180.5	75.6	104.9
August	186.1	80.4	105.7
September	188.7	83.1	105.6

In June 1952 total wages and salaries continued to rise despite the strike. In July, the decline was slightly more than one per cent. Among commodity-producing industries the total declined a little in June and about three per cent in July. After the strike, total wages and salaries promptly rose to new record levels. By July 1953, a peak of \$200 billion was reached.

Although we often think of a strike period as one in which inventories are drawn down, total manufacturing inventories changed only slightly during the 1952 steel strike.

1952	Manufacturing Inventories (billions)
May	\$43.7
June	43.3
July	42.9
August	43.1

The rise was resumed after the strike and the total

continued to increase until September 1953, when a peak of \$47.1 billion was reached.

The 1952-53 record shows that the steel strike blunted the advance in business activity only moderately and temporarily in 1952. When the strike ended, recovery was resumed with considerable vigor and influenced to a small extent by the rise in steel activity to new high levels. The recovery peaked out in the spring of 1953 because of two developments.

1. The Korean War ended and brought a cutback in government spending for national defense. Such spending declined from an annual rate of \$50.5 billion in the second quarter of 1953 to \$38.4 billion in the fourth quarter of 1954.

2. Inventories shifted from a rate of accumulation of \$3.1 billion in the second quarter of 1953 to a rate of liquidation of \$4.6 billion in the fourth quarter of 1953. The steel strike probably contributed somewhat to the high rate of inventory accumulation early in 1953. However, the main forces contributing to that boom and the subsequent downturn were found elsewhere than in the steel industry.

The 1956 strike

The 1956 strike—from July 1 to Aug. 5—was shorter than the 1952 strike. Ingot production averaged about 2.3 million tons weekly in the preceding four weeks and 366,000 tons weekly during the strike. Almost 10 million tons were lost due to the strike. Output increased rapidly after the strike with full recovery in September. Unlike the 1952 experience, total steel output did not rise much above the pre-strike level in 1956 or 1957. After March 1957, steel production declined; by April 1958 the total was about half as large as immediately after the strike.

During the 1956 strike the FRB Index of Industrial Production fell from 142 in June to 137 in July, a decline of 3.5 per cent. Excluding steel output, the rest of the economy showed only minor change. Recovery was rapid. By August the index had returned to the pre-strike level. It reached a peak of 146 in December.

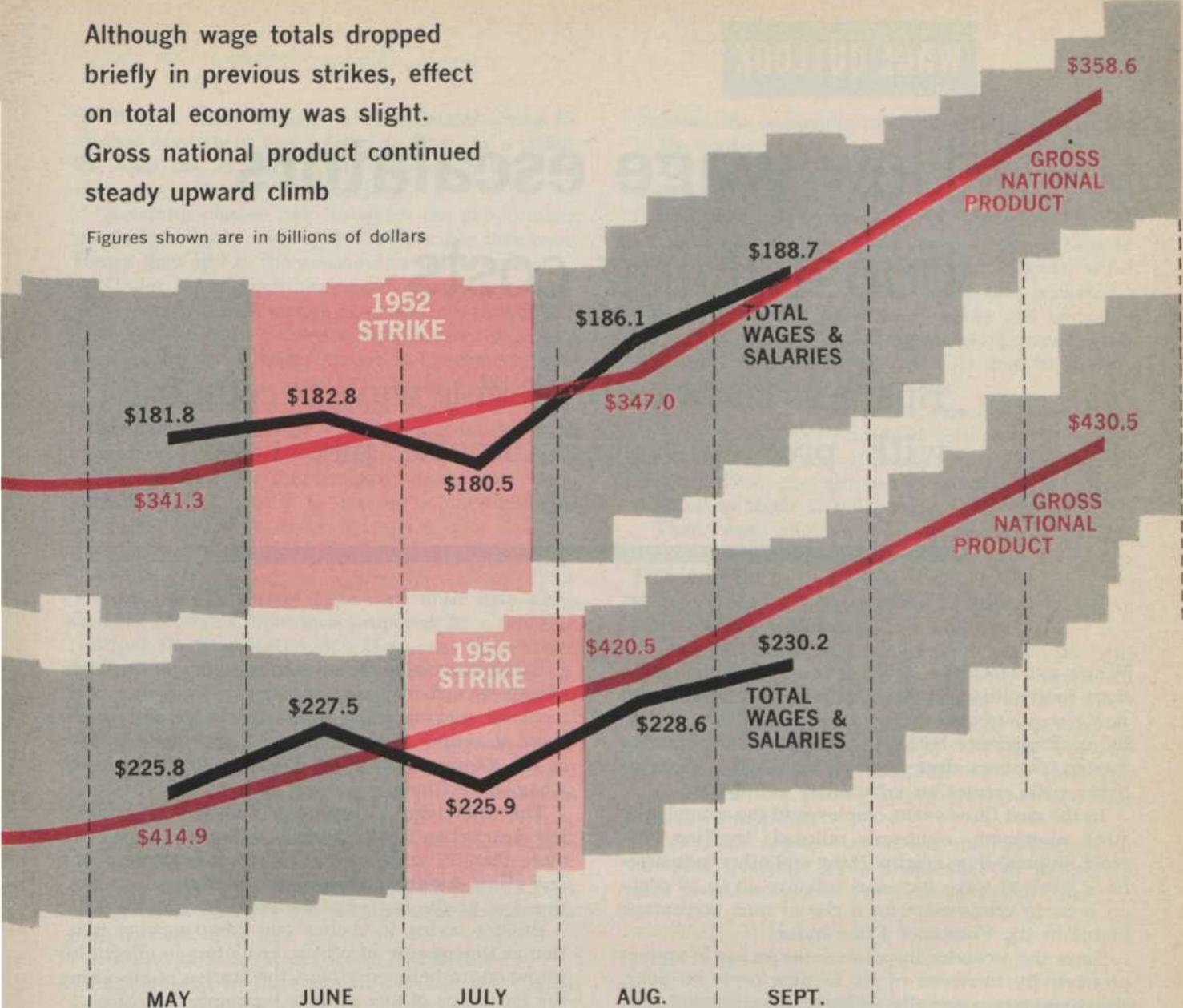
GNP, despite the strike, rose more rapidly in the third quarter than in the preceding quarter.

1956	Gross National Product (billions)
First quarter	\$410.8
Second quarter	414.9
Third quarter	420.5
Fourth quarter	430.5

The rise continued to \$447.8 billion in the third quarter of 1957, while the wage and salary income

Although wage totals dropped briefly in previous strikes, effect on total economy was slight. Gross national product continued steady upward climb

Figures shown are in billions of dollars



of individuals changed as illustrated in table that follows:

Wage and Salary Payments

1956	TOTAL	COMMODITY-PRODUCING INDUSTRIES		ALL OTHERS
		(billions)		
May	\$225.8	\$98.1	\$127.7	
June	227.5	98.6	128.9	
July	225.9	96.8	129.1	
August	228.6	98.9	129.7	
September	230.2	99.9	130.3	

For commodity-producing industries the decline was a little less than two per cent in July; total wages and salaries declined less than one per cent. When the strike ended, the totals promptly rose to new highs.

As in 1952, the strike appeared to have only a minor dragging effect upon economic activity in 1956. Because the strike was shorter there was less need to replenish inventories than in 1952 and hence less stimulus to the economy after the strike.

Inventories continued to rise in July 1956 despite

the strike, and kept rising until they reached to \$54.2 billion in August of the following year.

1956

	Manufacturing Inventories	
	(billions)	
May	\$49.3	
June	49.6	
July	50.0	
August	50.4	
September	50.8	

Largely because plant and equipment spending increased from \$28.7 billion in 1955 to an annual rate of \$37.8 billion in the third quarter of 1957, economic activity continued to surge forward throughout 1956 and the first half of 1957. Then a shift from inventory accumulation to an annual rate of liquidation of \$9.5 billion in the first quarter of 1958, combined with a sharp decline in expenditures for plant and equipment, contributed to the 1957-58 recession.

In neither year did the strikes reverse the economic expansion which was under way when they were called. Economic advance (continued on page 110)

How wage escalators boost living costs

Business leaders are seeking ways to cope with problems of automatic pay rises

WAGE ESCALATORS which govern the pay of more than four million workers in leading industries are now recognized as a major factor in the rising cost of living. Experience both in the United States and in foreign countries gives evidence that linking wages to living costs creates an inflationary spiral.

In the past three years, employees in the automobile, steel, aluminum, electrical, railroad, trucking, aircraft, shipbuilding, meat-packing and other industries have received wage increases totaling up to 18 cents an hour to compensate for a rise of nine percentage points in the Consumer Price Index.

Since the escalator increases come on top of annual productivity increases of six to nine cents an hour, the combination actually adds to unit costs and thus tends to build additional upward pressure under prices and the cost of living.

The escalators appeal to union negotiators as a hedge against inflation and deterioration of wage levels which are negotiated to cover several years. Economic experts contend, however, that this hedging is done at the expense of groups not covered by escalators.

William McChesney Martin, Jr., chairman of the Federal Reserve Board, warned two years ago that arrangements designed as "shelters or hedges from inflation" were quickening inflation's tempo.

"The five per cent rise in the cost of living which we have experienced over the past two years," he told a Senate committee, "has probably reflected and been reflected in more rapidly rising wage costs because of the prevalence of cost-of-living clauses in many modern wage contracts."

Dr. Neil H. Jacoby, former member of the President's Council of Economic Advisers, says that escalator clauses "cultivate the illusion of individual protection from the waste of inflation, and thereby inhibit people from supporting anti-inflationary governmental actions."

Escalation makes the economic system function less effectively and may generate and prolong unemployment by making wage rates and labor costs more rigid, according to Dr. Emerson P. Schmidt, director of the Economic Research Department of the U. S. Chamber of Commerce.

The steel industry was a victim of such rigidity last year when it was compelled to raise wage rates more than 17 cents an hour when a business slump and rising foreign imports had cut industry production and profits far below the previous year.

Besides trying to shelter one group against inflation at the expense of others, escalators in effect also throw on unsheltered groups the burden of absorbing the hardships of any adverse economic conditions.

Dr. Schmidt cites two ways this can happen:

- When a crop failure or shortage of a major food staple causes food prices to rise, the worker whose wage is escalated will be able to buy more of the reduced supply at the expense of others.
- When the government needs more revenue and levies an excise tax, the tax helps raise escalated wages and thus shifts the tax away from some who are supposed to pay it.

When wage increases lead to higher prices for manufactured goods, the cost to the farmer also is raised, Dr. Jules Backman, professor of economics at New York University, points out in his new book, "Wage Determination."

"Hence," he says, "farm price parity also is increased. Thus, one effect is to make possible higher food prices or to limit declines in those prices."

"It seems obvious," Dr. Backman concludes, "that wage escalation clauses adopted as a protection against increases in the cost of living help to bring about the price increases which they are supposed to neutralize."

"The importance of this pressure was demonstrated

in 1957. In many industries, the escalator clause increases were about seven cents an hour. As a result, the total rise in wage rates, including deferred increases, was about 14 cents an hour.

"Escalator clauses help to widen the gap between increases in labor costs and in output per man-hour. Hence they add to the pressure for higher prices.

"Under these conditions, fixed income groups are badly squeezed. All sectors of society are caught in a price spiral. Wage increases temporarily may raise the real income of wage earners, but income of pensioners, civil service employes, teachers and others tends to deteriorate as prices rise again."

Basically, the escalator wage contract has been the product of long-range business confidence and management's desire for uninterrupted production over a long period. It usually is part of a long-term contract—two years in many industries; five years in the automobile and electrical industries; six years in trucking.

Wage escalators were little used until 1948 when General Motors Corporation proposed, in a two-year contract, the combination of a three-cent "annual improvement" increase and an escalator that would adjust pay one cent an hour, up or down, for roughly every one-point fluctuation in the CPI.

The fixed annual increase was a contribution toward higher living standards resulting from increased productivity; the escalator was to protect real wages from erosion by rising living costs. C. E. Wilson, president of General Motors, defended the formula on several grounds:

If the formula had been put into effect in 1940, it would have raised wages to within a cent of what they were in 1948.

It would save "a lot of friction and strikes."

In accepting the fixed annual increase, the United Automobile Workers agreed to cooperate with management in cutting costs.

Mr. Wilson cited this latter point as the heart of the plan. Other companies and unions seem to have disregarded it in shifting to the GM formula. Work rules which hinder cost-cutting have been a big issue in the steel dispute.

The contract of GM with Walter P. Reuther's UAW includes this clause:

"The annual improvement factor provided herein recognizes that a continuing improvement in the standard of living of employes depends upon technological progress, better tools, methods, processes and equipment, and a cooperative attitude on the part of all parties in such progress. It further recognizes the principle that, to produce more with the same amount of human effort, is a sound economic and social objective."

Other automobile manufacturers adopted the GM formula in 1950. They signed five-year contracts just a month before Korea. However, Mr. Reuther argued that a contract must be a "living document" and respond to economic developments which could not be foreseen—such as the Korean impact. Under this

pressure the companies made an adjustment midway in the contract.

Use of escalators spread rapidly to other industries as unions sought protection against anticipated inflation arising from the Korean emergency and the escalation of wages with the cost of living became approved policy of the Wage Stabilization Board, which was set up to control wages during that period.

By the summer of 1952, coverage had spread to 3.5 million workers, including many in aircraft, glass, railroads, airlines, New York City bus lines, farm implements and woolen textiles.

During the next two years, however, most of the unions, except UAW, dropped escalators from their contracts as the cost of living remained stable. By January 1955, the number of workers covered had dropped to about 1.7 million.

Then began another swing to escalator contracts, led by the International Brotherhood of Teamsters. This shift back to long-term contracts and escalators was prompted largely by big industrial expansion plans and the anticipation of a business boom.

The teamsters signed six-year contracts with truckers employing 175,000 in 27 central and southern states. General Electric Company entered into a five-year contract in the fall of 1955. The steel industry signed for three years in mid-1956. The railroads got back on the escalator with a three-year contract that fall. Meat packing, aluminum and other industries followed.

Today the wages of about four million workers are adjusted quarterly or semiannually in accordance with escalator clauses in (continued on page 76)

See related
article,
**Misused
price figures
boost prices,
which starts
on next page**

WAGE OUTLOOK

Misused price figures boost prices

A Nation's Business interview with the
Economic Adviser to the Secretary of Labor,
Mrs. Aryness Joy Wickens

EARNINGS of more than four million American workers are tied directly to changes in the Consumer Price Index.

Each time the index rises one point, the total wage bill goes up an estimated \$200 million a year.

The earnings of additional hundreds of thousands of workers are also adjusted, but without contract agreement.

Escalator adjustments based on the Consumer Price Index are causing considerable concern among businessmen and economists. They have begun to question the value of this arrangement.

The matter becomes doubly important at this time because of a recent rise in the index.

To find answers useful to businessmen, NATION'S BUSINESS interviewed one of the nation's leading price authorities, Mrs. Aryness Joy Wickens. She is Economic Adviser to the Secretary of Labor, James P. Mitchell.

Mrs. Wickens, what changes do you see in the price index during coming months?

We will have some seasonal move-

ments in the price of foods and vegetables, which usually go down in the autumn; later in the winter some decline in the price of pork and perhaps beef.

These changes in food prices will be offset by certain other rises; milk prices usually rise in the autumn. In other words, for foods we expect seasonal changes with a net decline by the end of the year.

We will, however, have a rise in other elements of the index, or shall we say, in consumer prices. This will include the services, which have shown a persistent tendency to rise over a long period; such things as medical care, beauty shop and barber shop charges, the cost of maintenance of a home or an automobile.

Some apparel will come into the autumn market at higher prices, and rents will continue a slow rise.

Would you call this creeping inflation?

No, because some of the rises in the index, notably in services, are not inflation in the true sense of that term. Some of these increases are just the result of greater demand for a given kind of service,

such as medical care, together with rising costs.

What has caused the recent increases in the price index?

The price index was virtually stable from April '58 until April '59. The rises in the past two months have been almost wholly in food prices. From May to June seasonal rises for a few fresh fruits and vegetables were the major reasons for the increases.

Another part of the rise was a continuation in the rise of service charges, and in other miscellaneous charges, including, by the way, increased taxes on cigarettes in three states and on gasoline in one.

Is a tax rise in a few states sufficient to raise the index?

It depends on the importance of the state, but let me illustrate by saying that from the beginning of '53 until early this year, the index rose about 8.4 per cent. One fifth of that rise was due to changes in sales and excise taxes, and in charges that are regulated by state and local authorities, such as municipal streetcar fares, bus fares, railroad rates, postal rates, and utility rates of various kinds.

Are these tax rises significant in future increases in the index?

Yes. As municipalities and states widen and expand their activities with population growth they seek new sources of taxation. This year there has been a whole rash of proposals to increase sales and excise taxes. Since we get retail prices for the index we pick up these taxes.

What other factors account for the rise?

Half of the rise in the index from early '53 to this spring was the rise in services; another important portion was in rents, but food over that period accounted for comparatively little of the rise.

Just what does the Consumer Price Index measure?

It's a price barometer. It is intended to measure changes in retail prices of goods that families with moderate incomes buy. It is not intended to measure the dollar cost of living; that is, the amount that you

or I would spend to maintain a family. This depends on income; the more we have, the more we spend, in general. We are attempting to measure as closely as we can the changes in prices, and nothing but prices.

This isn't easy because over a long period the kinds of merchandise in the market change, the quality changes, new items come into the market, and we must take account of these changes.

The index includes at present around 300 items, for which we get upward of 100,000 quotations every month in 46 cities for food and certain other things and, less frequently, for articles that don't change as much.

These prices are obtained by personal visits of our agents to the stores; the merchandise is inspected and the price is taken off the price tag. We try to maintain constant quality.

Is the index accurate?

Yes. I think, by and large, it is.

This index, taken as a whole, is perhaps the most intricate index of its kind, and one of the most carefully done in the world.

It is also the most investigated of all indexes. There have been technical and congressional studies of this index and, on the whole, they have found it a reliable tool for its intended purposes.

How do you select the articles you price?

About every 10 years we study
(continued on page 46)

Each time the
Consumer Price Index
rises one point, the
total wage bill goes up
\$200 million a year

ROBERT PHILLIPS



WHEN MANAGERS WORK BEST

Hundreds of executives describe factors that make for high morale

NEW RESEARCH in the little-explored area of executive morale has unearthed findings with wide implications for all companies.

The two-year probe indicates that:

- Being part of a crack team is a paramount source of high morale on executive levels.
- Long-range compensation expectations and the whole system of reward—rather than just today's pay—are important to executives.
- Conditions and policies connected with long-run job tenure and job progress are cause for more concern than whether an executive will hold or lose the job he now has.
- Not only an executive's status inside and outside his company, but the company's recognition of his own personal dignity is a key to high morale.

These and other new findings in executive morale were made by Sears, Roebuck and Company's personnel researchers working under Jon Bentz, director of psychological research and services. A great deal of information was amassed. It ranged from formal systematic depth interviews to informal comments in bull session and at coffee breaks to impressions of personnel executives who travel the company extensively.

From the accumulated data, 800 separate and different comments were listed. They ranged from:

"This rat race is killing off a lot of good rats," to "The boss has always been fair in his dealings with me."

From this point on an elaborately controlled research study, involving about 1,400 Sears executives in all sections of the country and in all parts of the company's operations, was carried out.

Complicated statistical and mathematical techniques were used to sample, analyze, and classify reactions from the executives throughout the organization. Then the dimensions of executive morale were narrowed to nine categories.

Besides showing that executive morale depends largely on how well a company meets its executives' long-run career expectations, the Sears study sketched

a portrait of an effective leader of a management team. The style of a leader—how well he plans and organizes work, solves problems with his team and makes the best use of his people—seems to spell the difference between high and low morale. The democratic, rather than authoritarian, approach seems best. The executive apparently can draw great satisfaction from the work environment and the way organization goals are approached.

No attempt was made to rank the separate dimensions in order of importance, but, from the research, a questionnaire has been developed which the company is using to test morale in its various units in the future. The morale findings will also help guide company policies that might affect executives.

In recent years business managers have turned more and more attention to morale and job satisfaction. Much research has been done with the belief that high morale means high performance. This has not always been found true. The kind of leadership seems to be a dominant factor in the relationship between morale and performance or productivity on other-than-executive levels, where the research has been done. (See "How to Raise Productivity 20%," *NATION'S BUSINESS*, August 1959.)

Almost no research has been done on morale in the upper echelons of industry.

"Perhaps there has been a belief that executives had good morale by definition, or that executives were paid to have good morale or that morale was something executives manufactured for others," Mr. Bentz comments.

In any case, Sears concludes that high executive morale or job satisfaction should be an end in itself. Through greater understanding of executive attitudes, it's possible to move closer to comprehending the whole complex that makes up executive life. With such insight, the company believes, it is possible to make both the organization and its personnel more effective and the interaction between them more productive and harmonious.

A major implication of the study, according to Sears psychologists, is that executive morale is largely

involved with long-run career expectations. It can be expected, they say, that executive morale will be affected by changes in systems, procedures and leadership that disturb or enhance these expectations.

A distinct picture of the quality of leadership which executives expect from their superiors emerges and is embodied mainly in the factors or dimensions dealing with teamwork, work load and job status.

Sears researchers used more technical and encompassing titles, but in layman's terms here are the nine dimensions that evolved:

1. Teamwork



The first dimension portrays the effectiveness of the managerial work group as organized by its leader and the manner in which the executive group gets together with the leader to work toward accomplishing its organizational goals.

In describing this dimension, executives picture the executive leader as "knowing his job," able to "organize the work well." He lets members of the management team know "exactly what is expected of them." He makes an effort to pitch in and help group members learn their jobs and assignments in a "planned and organized fashion."

The executive leader "really tries to get ideas and suggestions" from the group. Planning and problem-solving is the result of coaction between leader and group. The leader gives his fellow executives "plenty of freedom" to use their judgment, "always gives credit for their accomplishments and always praises work that is well done."

The executive leader also "doesn't let shoddy work get by" but "does everything he can to give his executive staff a fair break." The executive leader is seen by his staff also as interested in their personal welfare. He lives up to his promises. The staff has confidence in his "fairness and honesty," "intentions and integrity," and sees him as "really trying to build the organization and make it successful."

The dimension is basically concerned with organizational effectiveness. It deals with the manner in which the executive group takes on a co-responsibility for doing the work and relates to the concern for the manner in which the staff works as a team to reach its goals. The joint effort in carrying out company purposes is at the root of this element of executive morale.

2. Staff use



How the leader uses the resources at hand greatly affects the extent of job pressure on executives under him. This element of morale is tied closely to the

way a manager evaluates his superior, as is the first element of team effectiveness. But this factor is concerned more with reaction to how fair the superior is and how equitably he distributes the work load, whether he tries to keep it in reasonable bounds, whether he makes the best use of the people at his command.

These comments to which Sears executives could show agreement or not, are typical of the expressions by which this dimension was pinpointed:

"The staff is too small for real efficiency of operation."

"My boss lets us know exactly what is expected of us."

"Our boss is frequently unreasonable about things."

"Forty hours is just not enough time to do my work."

3. Job status



Personal satisfactions an executive gets from his job involve both individual status and company identification. These two facets reflect his pride in the part he plays in the company show and the recognition he gets from audiences within and outside the organization. It boils down to a "I'm playing a leading role in a hit play" feeling.

This pride in job and company is seen in reactions to such comments as these:

"I wouldn't want to work for any other company."

"The people in my community respect my work in Sears."

"I feel I'm making a very important contribution to the company."

"Other people in Sears respect the work I do."

4. Pay



This dimension of morale deals with money and other forms of monetary compensation. It reflects attitudes toward the total compensation system and its fairness in terms of an executive's length of service, responsibilities he carries, the contribution to the company, what he gets in comparison to what others might make in similar assignments, or what other companies pay for similar positions.

But the reactions toward pay are set against a background of monetary treatment he has experienced in the past and what he expects in the future. So this dimension is not so much concerned with the exact amount of compensation currently received as with the whole system of executive compensation—the over-all economic per-

(continued on page 89)

RECORD PROFITS hide diminishing returns

Total picture shows profitability of business is rising for employes, declining for owners

YOU'VE HEARD that profits will set a record this year.

That's true.

But something else is happening.

Although profits are rebounding from last year's profit drought, your slice of the economic pie is continuing to shrink.

For example, if profits were holding up—the way compensation to employes is holding up—this year's total profits would be more than \$62 billion instead of the \$47 billion to \$50 billion which leading economists and businessmen now expect.

Because the level of profits affects public policy and public attitudes, businessmen need to be informed on profit trends. Here is a special **NATION'S BUSINESS** analysis of profits—what's happening and a useful look at what is likely to happen this year and next.

First, let's examine what is being said about profits.

Profits will set new record

In total dollars, this is almost certain. The record, however, is not likely to be quite as high as was thought a few months ago. Here's how the picture is unfolding:

Early estimates were that 1959 profits would reach about \$47 billion before taxes.

These estimates were based partly on past performance.

The recession had brought a decline of profits from a \$44 billion annual rate in the third quarter of

1957 to a \$32 billion rate in the first quarter of 1958. From that point profits rose, slowly at first, then rapidly. Percentagewise the rate zoomed 40 per cent between the first quarter and the final months of 1958. It seemed reasonable that momentum alone might carry profits on up during 1959. In addition, in the early months of this year business statistics indicated a higher level of business activity than had been anticipated. Also indicated was a rising rate of worker productivity. Because of these developments, estimates of profits for the year were raised first to \$49 billion, then to \$50 billion.

More information about the first half of the year is now available. These figures show that profits during the fourth quarter of 1958—first estimated at a \$45.2 billion annual rate—were probably no higher than a \$44.6 billion annual rate.

Early thinking about the first quarter of 1959 was that profits were flowing in at a rate of \$47 billion. Now it appears that the rate was probably no higher than \$46.5 billion.

Best economic estimates available in Washington now are that third quarter profits may be slightly lower than the second quarter rate while the fourth quarter rate probably will not be significantly higher than the second quarter rate. These assumptions are based on new indications that worker productivity has

not been rising as rapidly as was thought in the beginning months of the recovery.

On balance, this means that, although profits during 1959 could reach \$50 billion, they are more likely to be in the neighborhood of \$48 billion. This will mean an increase of about 7.5 per cent. Next year's increase—if there is one—will be even smaller.

This will be a record in terms of total dollars.

The previous record for corporate profits before taxes was 1955, with \$44.9 billion earned.

But those who look only at the total figure overlook other significant facts.

Profits as per cent of sales

The profitability of business enterprise, according to this measure, is slipping. Compensation to employes, meanwhile, is rising.

For example, in 1951 profits were equal to 8.6 cents of each sales dollar. Average for the period since then is 7.5 cents. Thus, if 1959 profits should total \$50 billion, they will average less than seven cents per sales dollar. These figures are for profits before taxes. The after-tax figure for 1959 will probably be about three cents per sales dollar or slightly higher.

It is interesting to note that, if profits in 1959 were equal to the per cent of each sales dollar that is the average for the period since

1951, total profits would exceed \$62 billion. That will not happen.

Compensation of employees in 1951 was equal to 23.2 cents of each sales dollar. The figure has risen somewhat, though not sufficiently to establish a definite statistical trend, and now probably exceeds the 24.4 per cent of 1957.

Thus, the slice of the total economic pie going to employees has grown slightly larger and the profit slice has grown somewhat smaller.

This means that the profitability of business enterprises as a whole is declining for the owners and is improving for the employees.

This decline of profits as a per cent of sales, though a long-term trend, is not the same for all industries or for all companies. Wide variations occur. Companies which want to measure their own progress in relation to the trend must be careful to use the figures for their own industry.

The same holds true for companies which figure profitability on the basis of capital investment. For all industries, this cannot be considered meaningful since capital investment goes for different purposes. For some industries most of the investment is in production equipment. For others, investment goes into inventory. For this, and other reasons, the profit return on investment does not always show up at the same time. Therefore, even industry-wide comparisons are difficult. The telephone companies, for example, are currently spending large sums to influence profit patterns as much as 20 years in the future. Investment is going for long-distance direct-dialing equipment and other features calculated to return improved profits in the years ahead.

Marketing centers on the other hand, though planned for the long run, may prove more profitable in the near future and perhaps less profitable later. A new grocery store, for example, may begin to count profits as soon as the stock is moved in and the doors are opened for business. Within a relatively few years profits may be sufficient to pay off the entire investment in the building. Also, within a comparatively short time any particular shopping center may become less attractive as centers of population shift and shoppers are attracted to newer stores.

Another economic fact sometimes overlooked is this:

Profit increases are not shared alike by all enterprises or all industries. This is clearly the case

(continued on page 86)

How to read this chart. Dollar figures in each column represent the dollars of sales needed to earn \$1 of profit. The comparison for all manufacturing corporations, for example, shows that sales of \$19 were required in 1957 for each \$1 of profit the companies earned. Last year, reflecting the 1957-58 business downturn, the figure rose to \$29. For early 1959 the figure has declined to \$21. This indicates that profitability for business owners is increasing to its prerecession level. By the end of this year, the profitability of these companies should equal or surpass the 1957 level. Data are based on government statistics.

Dollars of sales needed to make a \$1 profit

	'57	'58	'59
ALL MANUFACTURING CORPORATIONS	\$19	\$29	\$21
Durable goods	19	33	21
Transportation equipment	19	30	18
Motor vehicles and equipment	16	27	14
Aircraft and parts	33	39	55
Electrical machinery, equipment, supplies	22	31	25
Other machinery	19	33	26
Metalworking machinery and equipment	16	59	52
Other fabricated metal products	27	46	39
Primary metal industries	13	23	15
Primary iron and steel	14	24	14
Primary nonferrous metals	12	21	17
Stone, clay and glass products	15	32	18
Furniture and fixtures	44	144	50
Other lumber and wood products	98	1,149	33
Instruments and related products	19	27	17
Miscellaneous manufacturing and ordnance	42	172	34
 Nondurable goods	 20	 27	 21
Food and kindred products	51	54	48
Alcoholic beverages	34	43	42
Tobacco manufactures	21	20	19
Textile mill products	49	224	40
Apparel and other finished products	72	140	62
Paper and allied products	18	24	20
Printing and publishing, except newspapers	25	35	28
Chemicals and allied products	13	16	13
Basic chemicals	10	13	11
Drugs	10	10	10
Petroleum refining and related industries	9	13	11
Petroleum refining	9	12	11
Rubber products	23	34	26
Leather and leather products	54	80	54

HOW'S BUSINESS?

today's outlook

AGRICULTURE

The conflict between Administration and congressional ideas on farm production and prices seems likely to continue through the 1960 session.

The mounting costs of government-held stocks and surplus disposal programs in the absence of effective production controls are drawing increasing criticism. There is also evidence that growing numbers of farmers are fed up with the federal program and want more freedom to produce for markets rather than government storage, provided present surplus stocks can be disposed of through welfare and foreign currency type programs with little adverse effect on market prices and normal trade channels.

In spite of substantial agreement that markets cannot absorb total farm output of the principal surplus commodities under present price support and production control programs, there is no agreement on the remedy.

The deadlock will inevitably be broken either by a new and constructive legislative approach; or by abandonment, in response to public insistence, of virtually all farm programs.

CONSTRUCTION

Housing starts are up by one third over last year. An estimated 708,500 nonfarm dwellings were started in the first half of 1959, compared to 536,000 in the same period

last year. The gain is entirely attributable to the strength of the private sector of the market.

Starts for private ownership are up about 40 per cent over last year, while public housing has dropped to half its 1958 volume. Private housing starts now comprise more than 97 per cent of the total—a strong resurgence after several years of high-volume public building.

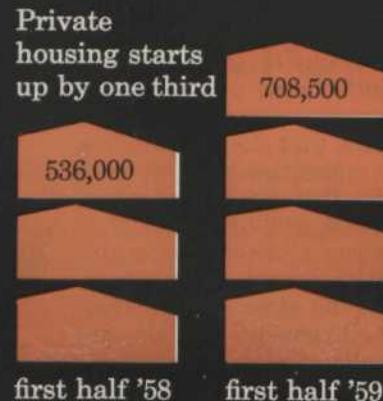
New starts are increasing in both metropolitan and nonmetropolitan areas, but the biggest gains are in the more urbanized sectors. In fact, the proportion of starts in metropolitan areas is nearly 70 per cent of the total—a ratio that hasn't been reached since 1955.

Multifamily structures are accounting for a larger share of the market. Indications are that almost one unit out of four started this year will be designed for more than one family.

CREDIT & FINANCE

A possible easing of money and credit conditions is in the offing. Two factors may account for this change: a restful government bond market and the steel strike.

Treasury debt managers have only one small borrowing operation set before October. During fiscal 1960, if present hopes for a balanced budget materialize, the Treasury will seek no long-term money from the market. This contrasts with the past fiscal year's scramble for some \$8 billion to finance the deficit.



Added to this easing in the money market is a possible slowdown of demand for bank credit. As the steel strike continues, inventories will be reduced, resulting in lessened demand for bank credit.

On top of these general trends comes a newly enacted law allowing banks to count vault cash as a reserve, eventually freeing some \$2 billion for lending purposes.

DISTRIBUTION

A year-to-date comparison of distribution business activity shows not only greatly improved sales levels but also better profit results.

The latter is partly due to management's cost-cutting programs which were instituted during last year's recession.

Nondurable goods and services, while racking up higher dollar volume than a year ago, have a smaller proportionate share of total sales. Hard goods, on the other hand, have expanded in both respects.

Sales of merchant wholesalers for the first half of 1959 were \$62 billion, or 14 per cent, above sales for the same 1958 period, according to the U. S. Department of Commerce. Also, inventories of wholesalers are six per cent above year-before stocks—a sign of cautious optimism.

Most retailers expect record back-to-school volume this fall.

The latest study on consumer buying plans by the Survey Research Center of the University of Michigan reveals that many families are

Chamber of Commerce of the United States

increasing spending plans in spite of resentment about rising prices.

FOREIGN TRADE

The trend toward overseas manufacturing arrangements by United States industry, whether through subsidiaries or partly owned affiliates or licensees, will become even more pronounced with the advent of the "outer seven" bloc in Europe.

According to the draft plan, not yet ratified, the first round of tariff cuts among the seven nations would begin July 1, 1960.

The establishment of the European Common Market in 1957 has already brought increased opportunities for U. S. companies to introduce American products in France, Germany, Italy, Holland, Belgium, and Luxembourg.

Many U. S. firms have also sought to expand their own production through reciprocal arrangements under reverse-licensing proposals.

Similar stimulus may be expected from the formation of the "little free trade area" including Austria, Britain, Denmark, Norway, Sweden, Switzerland and Portugal.

This new bloc may help eventually to establish a free trade area for all of Western Europe.

GOVERNMENT SPENDING

The President's midyear review of the budget, which should be forthcoming this month, is expected to present a much brighter picture than the one submitted a year ago. Whereas the latter forecast a \$12.7 billion deficit for the budget year (1959)—\$12.5 billion was the actual deficit—this year's review will probably show a budget surplus of \$1 to \$2 billion for fiscal 1960.

This improved fiscal situation, however, will reflect no decline in spending. Spending estimates will be above \$78 billion. A booming economy with its increased revenues will make a balance possible.

The surplus, however, will rest on a shaky foundation.

Next year's presidential election campaign will cause politicians to urge increased supplemental appropriations and new spending authorizations. Added to this will be increased election-year pressures by special-interest groups.

LABOR

When Congress convenes in January one of the hot political issues that will be waiting is the bill which would broaden the base and coverage of the minimum wage law.

Last July a Senate labor subcommittee under the chairmanship of Senator Kennedy (D-Mass.) revised and reported a bill which eventually would raise the minimum wage from \$1 to \$1.25 an hour and place another 10.7 million employees under the federal wage-hour umbrella.

With an election scheduled for 1960, some politicians will look at both broadening coverage and increasing the minimum as vote-getting devices.

Most opposition to the measure is expected to come in the House, but its effectiveness will depend on the evidence and arguments presented in hearings to be held next year by the House Labor Standards Subcommittee.

Both opponents and proponents of the wage bill are grooming witnesses and gathering statistics.

NATURAL RESOURCES

Lines are being drawn for a stiff fight in Congress next year over what to do with \$4 billion worth of surplus stockpiled raw materials.

The Office of Civilian and Defense Mobilization, which determines stockpile policy, may propose a new National Materials Reserve Inventory as disposal machinery. Congress would be notified of intended sales of materials that exceed stockpile goals.

Opponents of reduced stockpiling and disposal want tighter congressional control over the program to prevent dumping on the domestic market.

Heads of the program recognize that hasty disposal would intensify producers' problems, but they believe a start must be made in reducing the hoard of materials that may never be needed.

Congress will have to wrestle with this basic question: how to terminate government purchase commitments and reduce overgrown stockpiles without disrupting the domestic mining economy.

Although stockpile goals have been lowered from five to three years

the hoard is so great that even a careful disposal plan could disrupt prices of some metals and minerals.

TAXATION

The Ways and Means Committee's projected tax study for the fall months effectively took the bloom off any possible chance for major tax legislation during this session of Congress. This the early announcement was intended to do.

Even so, two important measures progressed significantly. H. R. 5 to provide tax incentives for foreign investments surmounted a series of legislative roadblocks and will be ready for action early in the 1960 session. Strong pressures developed in favor of this bill as one phase of our counter to the Soviet economic offensive.

The Supreme Court decision in the Stockham Valves case—affirming the right of the states to tax income from interstate commerce—sparked a quick business reaction which the Congress belatedly acknowledged.

Action of the Senate Small Business and Finance Committees smoothed the way for House action to minimize the decisions.

TRANSPORTATION

The proposal to move all first-class mail by air has been revived and expanded. The Postmaster General is asking Congress for permission to transport any class of mail by air when he finds that this would be in the public interest.

Questions have been raised, however, which leave some doubt as to whether Congress will concur.

The Postmaster General has said that air service would be used for long-haul, intercity movements. The railroads ask, if the airlines are permitted to carry these high-volume loads, how long can the railroads be expected to be able to provide service to smaller, intermediate points. They flatly state that they will not maintain expensive mail-handling facilities and equipment simply as a standby service.

The airlines argue that any restrictions on the authority of the Post Office Department to use properly authorized scheduled airlines for the transportation of any class of mail should be removed.

PRICE FIGURES

continued from page 39

the expenditures of families—not just wage earners and clerical worker families, but a cross section of all families.

In 1950 we studied actual expenditures of 12,500 families, and the list of articles priced for the index comes from those studies. It is made up from articles that families actually buy.

Since we are measuring changes in prices, we only have to price the things that are most important.

You survey some cities every month and some cities only every three months. Why do you do it this way?

Solely for economy reasons.

We would prefer to price many more articles in all of the cities in-

a perfect index for all purposes. But at present we are operating with a market basket of goods which is essentially representative of 1952. A number of changes have occurred.

We know that family income has increased substantially and, as income rises, family spending changes.

Also, we know that more families have young children now and this affects the way they spend their money.

Then there are some new articles in the market. The index includes frozen foods, and some of the packaged foods, but we are reasonably sure we don't have a sufficient representation. Another thing, credit charges are not now covered, and with the rise in consumer credit, this has become important.

We need to make sure we are up to date on the things we are pricing, and the proportions in which we put them into the index. We also think

contracts it's half a point; in others it's six tenths of one point, in others, four tenths.

How many workers are involved in this kind of contract?

Upward of four million in contracts that we have in our files. We estimate that another 500,000 or so have their wages escalated voluntarily on this index. Then we know of a considerable number of public uses of the index. For instance, municipal salaries in the city of Milwaukee are escalated on an index which is made by the Bureau of Labor Statistics for that city.

The use of the index as a basis for wage escalation is the most widely quoted use of the index, but the index is also a factor in virtually all discussions of wages and salaries. For example, when salaries of federal employees are under discussion, we almost always are called upon to provide information on changes in the consumer prices in the United States as a whole and the city of Washington especially.

What are some other uses?

This index is used in many ways. It is used in alimony contracts—divorce settlements, in many kinds of personal income contracts between individuals. It is also used in long-term leases, particularly the rental component of the index, especially for dwellings or for paying for ground rent.

It's also used as a basis for adjusting maintenance payments in public institutions.

We often think of just the index itself as being important, but you would be astonished at the wide use of the retail prices themselves, and of the information we have on individual commodities and groups of commodities by the industries concerned with those commodities.

For example, some retail food stores use the food index to compare the changes in their prices.

The public utility systems—which, by the way, have a record of the lowest price increases of any segment of the family budget—often make charts of the changes in public utility rates, gas rates, electric rates, telephone rates, in comparison with the whole index and with other elements of the index.

Lately it has come to have an important use in general economic policy discussions.

Can the index be used as a measure of inflation?

It is my view that it answers just one question in this connection,



Says Labor Department's Mrs. Wickens: "We may push the price sampling out farther into rural residential areas not now covered, and into nonfarm rural areas"

cluded in the index, and, as a matter of fact, Congress has this year given us funds to increase the number of prices we get each month. Certain things don't have to be priced every month; they don't change often. We know what those are, but ideally we should price all of the things which change rapidly, or which change locally, like utility rates, often enough to make sure we don't miss anything.

What are the limitations of the index?

Perhaps we expect too much of it; it has become all things to a great many men, and you couldn't create

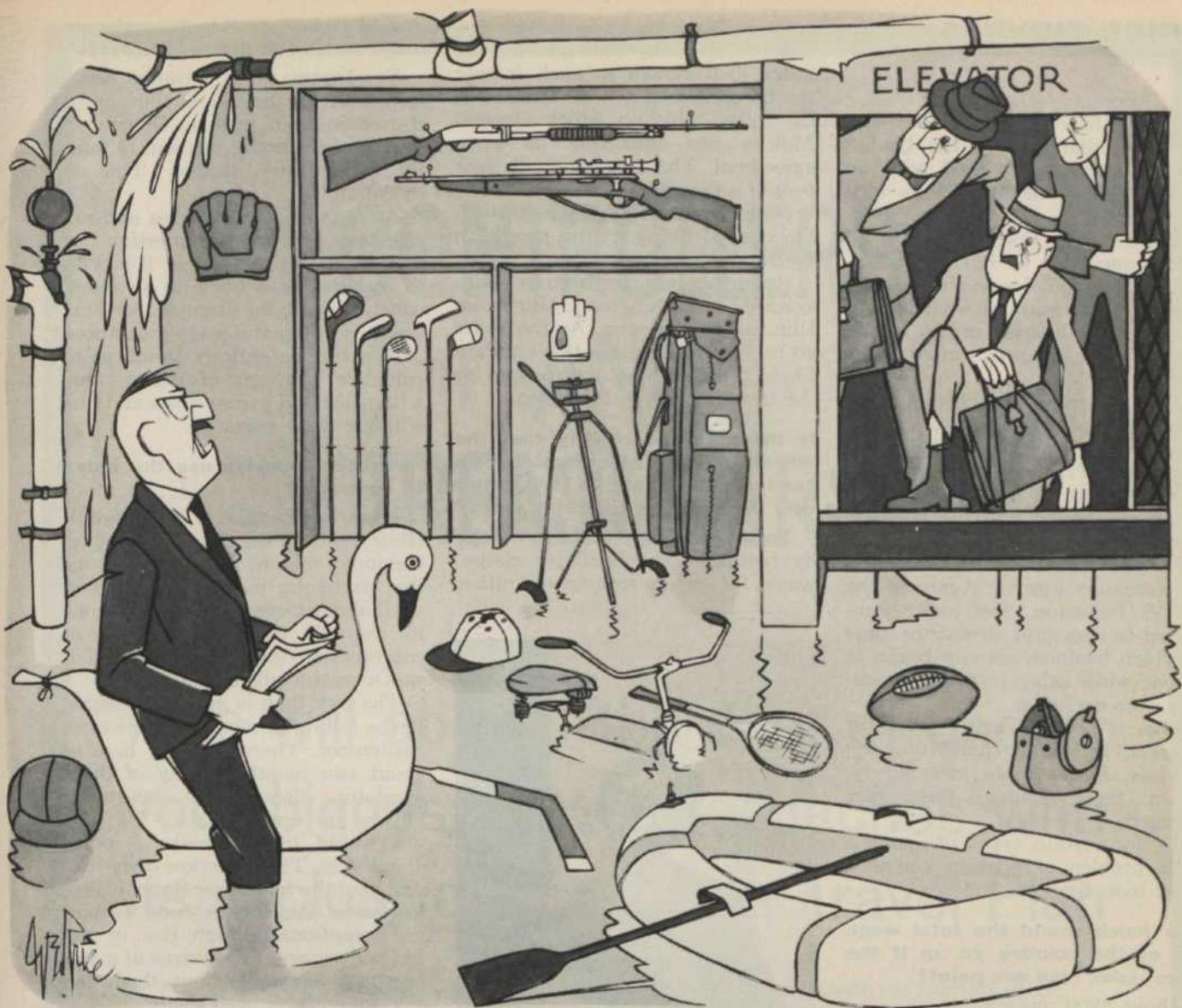
we need to move into a wider range of quality, particularly for clothing and furniture.

You are planning to revise the index. When will the revision be completed?

It is now scheduled for 1964. Work will begin this autumn.

What are some of the principal uses of the index?

Its most commonly discussed use is the escalator clauses in wage bargaining agreements. These clauses provide that wages shall move up a cent an hour every time the index moves by a certain amount. In some



"Speak up, now! Didn't any of you guys sell me water damage insurance?"

Could *your* business be among the 2,500,000 which are not properly insured against one or more common hazards? If so, the reason may be that you have divided the responsibility for your protection among several agents. Divided responsibility can easily result in serious gaps in your protection . . . unnecessary and expensive duplication of coverage . . . or annoying confusion and delay in the settling of your claims.

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PRICE FIGURES

continued

which is, how much will the consumer's dollar buy in the United States now as compared with an earlier time. This in itself is very important.

But the index does not answer all of the questions we have about inflation. The Wholesale Price Index is a better measure of what is happening to industrial prices, which usually move before consumer prices do.

This brings me to one important point that people who are looking at inflation should remember: The Consumer Price Index is a slow-moving index. It does not quickly follow the changes in the business world, so we have the spectacle of the index rising in '53 and '54 when the recession was on. Again in the '57-'58 recession, the index continued to rise until almost the time at which business activity began to revive, while other business indicators were declining.

This is because many prices at the retail level don't change quickly; services, for example, rise slowly. When they change, they stay changed.

So, for certain types of analysis of the problem of inflation, you need other tools than this index.

How much would the total wage bill of the country go up if the price index rose one point?

About \$200 million.

Let's take the steel industry. If the index were to rise by one half point, giving the workers another cent per hour on their basic pay, it would cost the industry—under the contract just expired—somewhere around \$15 million to \$18 million, as estimated by the industry. This includes the higher costs of fringe benefits which go up with basic wage rates and also higher pay for salaried workers who usually get cost-of-living increases when production workers do.

You said that tax rises in three states had caused some of the Consumer Price Index increases. Is it possible that tax increases in one state could result in salary increases in another?

Yes. For example, most wage contracts are on the national index, and so when New York State increases taxes, as it did this year, this affects the wages of automobile workers all over the country.

I recall the time when subway

fares in New York went from five cents to 10 cents. This affected the index just enough to push it over the borderline of a wage bracket in the index table on which General Motors was operating its wage agreement. That rise gave all their people a cent an hour more.

Now this had nothing to do with the cost of living of the people in Detroit, of course.

Recently taxes increased in Pennsylvania, Washington, Maryland, Illinois, and Arizona. As the years go by other changes of this kind are likely. This is one of the reasons for the upward drift in the index.

Is there any possibility that the wage increases which result from tax increases could, in turn, cause new increases in the price index?

Yes. This is the problem where, by reason of the escalator clause, wages for certain specific and rather



"The selection
of particular months
for an escalator clause
has some dangers"

limited groups are automatically raised when the index goes up. If the rise in their wages increases costs sufficiently to require a rise in prices in the goods they make, then everyone pays the higher prices, and the workers involved get still another wage increase. You have the possibility of a spiral here.

I don't want to give the impression that this effect is numerically large; that is to say, the spiral effects on the index are not, in any short time, large, because a third of the index, after all, is in food and not directly associated usually with escalator clauses.

Would it be possible to make an index which left out tax increases?

Yes. Income taxes, of course, never have been in the index; they are a deduction from income. Of course, we do take account of them in family expenditure studies. This is essential.

As the use of sales taxes and excise taxes widens, the question has been raised as to whether it is wise to include these taxes in an index which is used, for example, for purposes of automatic wage escalation.

It would be entirely practical to calculate two sets of indexes one with sales and excise taxes and one without these taxes.

How does industry use the index in contracts?

It works like this: A given month is agreed to in the contract as being the index month, and the index for that particular month is not issued until about three weeks later. Thus, for example, there are a number of contracts on the July index which was available about Aug. 25.

The pay then is made applicable in the following month, in this case, September. There is a lag here of about two months. Many of these escalator clauses are quarterly. Others are semiannual.

I would like to make a point about this. The selection of particular months for an escalator clause has some dangers. In June we had an exceptionally high rise in the index because of the prices of a few seasonal foods. Without them the rise would have been small.

Now if you are going to pay workers for a year or six months, or three months, on the basis of one month's index, you may find yourself with an accidental rise or dip which doesn't last very long.

Therefore, from the point of view of stability, a longer term average is a better thing to use. You could use the average of the preceding three months, or the preceding six months and obtain a basis for wage changes which minimizes these seasonal, short-term variations in particular months.

If you were negotiating a contract would you prefer not to use the index?

If I were negotiating a contract on behalf of either party, there are two or three things I would consider. I would consider using a longer term average than one month and I would certainly remember that this index is revised from time to time. I would provide for a way to handle the index revisions so that

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PRICE FIGURES

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it would not be necessary to negotiate all over again on this clause alone.

I think that the broader question, whether escalator clauses should or should not be entered into, is one which management and labor have to decide for themselves under free collective bargaining.

Some people question whether it is in the public interest to have such frequent and specific adjustments of wages to changes in cost of living, whether it be up or down. Before World War II, increases in wages were bargained for on the basis of the cost of living; they weren't always obtained. In the last recession economists questioned the advisability of having wages go up based on this lagging Consumer Price Index when business activity had declined so much.

From the point of view of the people receiving the wages, you must remember they were paying those prices during the recession. So if you grant that the purchasing power of wage earners or salaried people should move up with the cost of living, then this was a logical thing to do, because the fact is the consumer prices did rise during that period. Certainly consumer prices are part of the bargaining in many other wage agreements which do not have escalator clauses and just as large wage increases are agreed to there as where you have escalator clauses.

There have been periods actually when unions without escalator clauses negotiated larger wage increases than those which had escalator clauses.

However, the vast bulk of the 67.6 million people who work in the United States don't have the benefit of escalator clauses, and their pay is not adjusted as promptly. This is true of all professional people, and many salaried people, and in general of civil servants, teachers, librarians, clergymen.

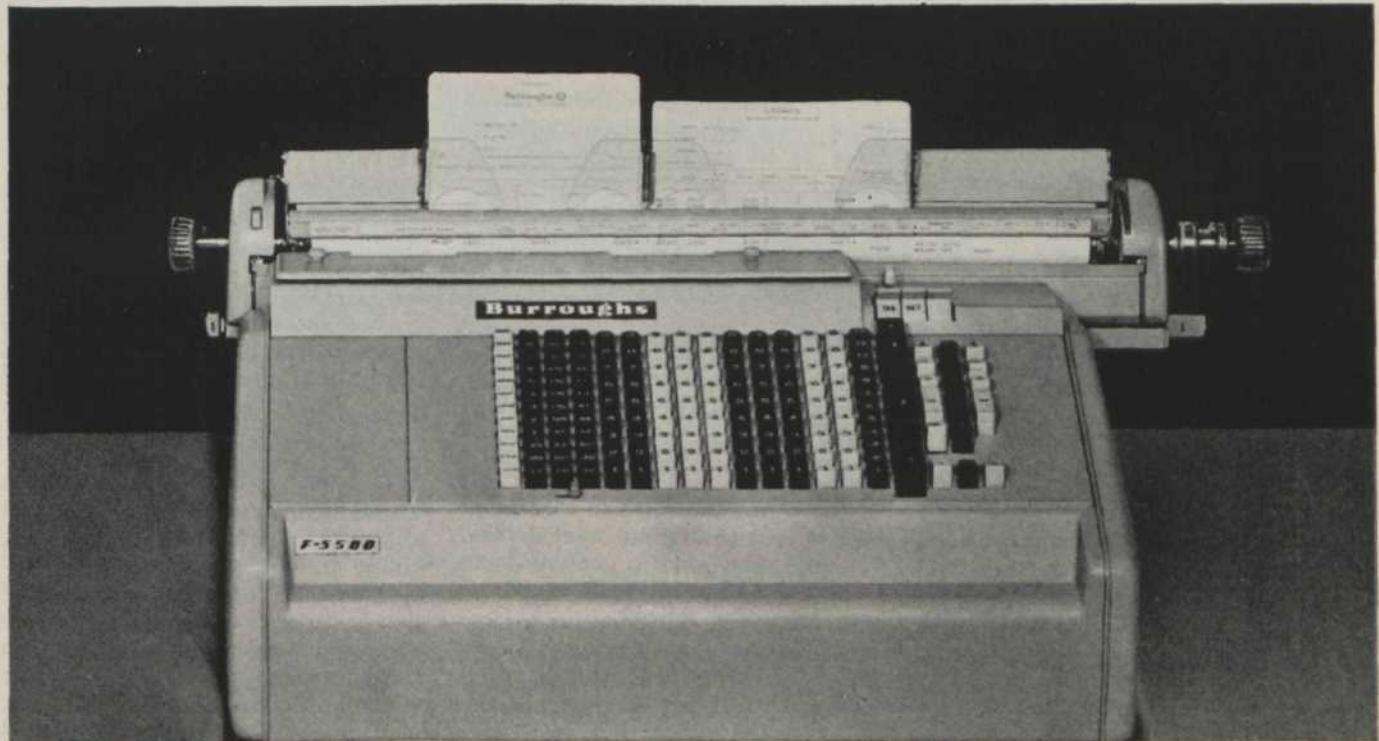
Does the index measure a difference in prices between cities?

No. That requires a different kind of study. Many people do use the individual prices, especially for food, to get a rough measure of differences. We do not have in this country an adequate measure of the differences in living costs between cities.

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out of date. It's one of the questions we are most often asked that we cannot answer with good current figures. We are working on new estimates. For example, companies call us and say, "Should there be a wage differential between City X and City Y because it costs more to live in X than in Y?" This question we can't answer.

But if it is a question of changes in price levels from one time to another, we do all right. For instance, if a company wants the answer to the question, "Should we raise wages in City X more than in City Y because prices have gone up more in the past year or past two years?" our city indexes will provide the answer.

A city with a higher index figure then may actually have a lower cost of living than another city with a lower index?

That is right. It doesn't follow that it would cost you more to live in the city with the larger price rise.

As a matter of fact, during and after the war, prices in the cities which were becoming rapidly industrialized—in the South and West especially—rose much more rapidly because their prices had been low.

Is there any measure in the index of the fact that when beef prices, for instance, go up, people may switch from beef to pork, which may be going down?

The wise housewife can always beat this index; she can shop on the week end and buy large quantities at a special price; she may shift from one product to another. We cannot follow her around to see what she chooses. But we change the market basket at infrequent intervals.

If the index goes from 124.5 to 124.6, what is the margin of error?

We have no precise measure of the margin of error in the statistical sense, but we believe from observation and tests over the years that the index for all goods and services combined is quite accurate. There are some "errors"—not that somebody goofed on the calculations, but because we can't always make our descriptions as precise as we would like. These are not errors in the usual sense, but they can affect the accuracy.

Then, too, the changes in quality

may introduce some error, which I prefer to call bias. We know we are probably overstating the true price rise of some things on which quality has improved a great deal. Most people think first of the automobile, for example. But we are also underestimating the rise for others—for instance, rent and the higher costs of the newer dwellings that have not got into our index.

Putting an "amount of error" tag on all of the different problems throughout the index is a tremendous task, as a technical committee found out during the controversy over the index during World War II.

The surveys are made in large cities. Does that make this a city index?

It is a city index. We have large and medium and small cities. In the revision we will increase the number of smaller cities.

There is now a question whether we should not push out further into the rural residential areas which we have not covered, and possibly even take a sampling of the rural non-farm areas. If this index is to continue to be used—and I feel sure it is—as one of the important measures of the effects of inflation and the value of their consumer dollar, I think it ought to include representatives of farm families as well as of rural nonfarm and city families.

This index applies now to families whose incomes range between \$5,000 and \$6,000, to families in the cities, but it does not apply to single individuals. It applies to families of two or three or more. It wouldn't be typical, for instance, of changes in costs for a young man or a young woman living in a boardinghouse, or in a small apartment, nor would it be typical of the budget of an elderly couple who probably would have their own furniture, and their own house, and have acquired many things that a growing family buys as it goes along, which we have to price in proportions that apply to the majority of families.

We have many requests for indexes applicable to special groups, and we hope in the revision of the index to obtain enough information on family expenditures by different types of families to be able to answer some of them.

For example, we are just now finishing an elderly couple's budget. If we could provide this, it would be of enormous help to social authorities, to relief agencies, and to people planning their own expenditures.

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Global study rates U.S. management

Trends, strengths and weaknesses of industrial administration shown in Princeton-MIT analysis of 24 countries

AN INTENSIVE five-year study of management in the industrial world has produced these significant conclusions:

1. Management in the United States, although still plagued by a number of deficiencies, has reached a higher level of development than that of any other country.
2. As a country becomes highly industrialized, professional managers take over the reins from their patrimonial and political predecessors.
3. At the same time, management's authority over its workers is diminished by such counterforces as government regulations and labor organizations.
4. Development and effective use of managerial and technical know-how is crucial to industrial growth.

The study is based on a firsthand look at management and industrial development in 24 countries by Dr. Frederick H. Harbison, director of the Industrial Relations Section at Princeton University, and Dr. Charles A. Myers, director, Massachusetts Institute of Technology Industrial Relations Section.

Assisted by six colleagues, the

two professors have made the first comparative analysis of world-wide management in economic, social and political dimensions. Their findings will be published this month by the McGraw-Hill Book Company in a book, "Management in the Industrial World: An International Analysis."

Why is this study of interest to the American businessman? Of primary importance, it will broaden his perspective in the field of management development. In addition, it will enable him to determine where his own firm fits into management's evolutionary scale.

U. S. management

"Increasing numbers of American managers are doing a good job both in the advancement of economic progress and in the enhancement of the dignity and worth of the individual as a citizen in a political and industrial democracy," the authors state. They add, however: "The millennium is far from at hand, even though American management probably continues to lead the world in these respects."

On the plus side of the managerial ledger, they list these factors:

- The vital role of management as

an economic resource was recognized early in this country, and professional training programs in universities, management associations and within corporations have become highly developed.

► Professional management in the United States has developed farther than in any other country.

► The educational level of managers has been rising as opportunities, particularly in large corporations, have been opening to those without family influence.

► Management has moved toward a decentralization of authority within itself and toward constitutional management—in which the employer's rule-making power is shared with government and labor organizations—in dealing with its workers.

Drs. Harbison and Myers cite certain weaknesses which still persist in American management, however:

► In too many firms family connections, rather than competence and performance, play the critical role in promotions to the top.

► In too many managements the benevolent autocrat rules the roost while subordinates, resentful and frustrated, withhold their maximum efforts on the job.

► Too many managements still fail to develop the interest of their employes in contributing ideas for the common good of the firm.

► Some managements try to deny in the shop the rights of democracy and the dignity of the individual—although their numbers have been decreasing.

Professionalism grows

Throughout the industrial world, the trend is toward management in which most positions, including those at the top, are held on the basis of technical competence rather than relationship to a family or political regime.

In the early stages of industrialization, patrimonial management is common, with ownership, major policy-making positions and a significant number of other jobs in the hierarchy held by members of a family group. Less common but also characteristic of this period is political management, in which such

(continued on page 58)



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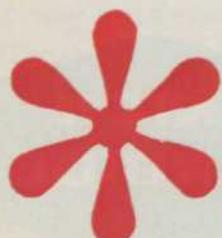
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Management in the
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Professional managers share power with government and labor in highly industrialized nations



Patrimonial or political managers wield autocratic authority in early stages of industrialization

positions are held on the basis of political affiliations and loyalties. Both grow out of the efforts of the ruling group to find managers who can be trusted and who will be loyal and obedient.

If the members of the family are able, well educated and diligent, patrimonial management may be dynamic. In Germany, for example, the usual family industrialist has been a man with extensive technical or professional education.

On the other hand, the family firm may tend to vegetate instead of expand, as has occurred in France and Italy, and thus act as a drag on industrial growth. In both countries, however, recent indications are that new industries managed by professionals are accelerating the pace of economic expansion.

As industrialization advances and increasingly large numbers of administrators, trained engineers and technologists are required, it becomes evident that competence instead of connections must become the standard for access to managerial positions. The records of the United States, Soviet Russia, Great Britain, Germany and Japan testify to the triumph of professional management in highly industrialized countries.

The evolution from political to professional management can be traced in Russia. Immediately after the revolution, some managerial posts were handed out to reward tired old Bolsheviks for faithful service. In other instances prerevolutionary managers were retained, but with loyal communists standing beside them to control every act of management from the party point of view.

The party soon assigned to the Russian educational system the task of producing capable managers who were politically indoctrinated, however. By the late 1930's most of the old political managers were purged, and the principle of professional management adopted.

With party loyalty assumed, the study has found strong evidence that the educational level of Russian managers has risen sharply and that access to managerial jobs is increasingly on the basis of educational achievement. In addition, holding a managerial post is now greatly dependent upon performance.

At first the Soviet crash program in education was geared to produc-



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U. S. MANAGEMENT

continued

ing engineers and technicians in bulk, but today the emphasis on quality is growing. There is also an increasing emphasis on practical training in management, a "dirty hands" approach which neglects the formal managerial education stressed in American schools of business and industrial management. Some observers regard this as a major Russian shortcoming.

The communists' policy of management development has created a professional managerial elite which has been accorded high status and a standard of living second only to a few unusually privileged groups. This elite is broadly based, because of the opportunities for higher education available.

The manager's functions, however, are severely limited in both the political and economic spheres. His control over wages, prices and production targets is relatively slight and indirect. Investment decisions and annual budgets also are determined at a higher level.

Even the role of the higher-level economic administrator and planner appears to be limited in scope. Ad-

vancement in the political hierarchy requires party fealty and mastery of ideology.

This ladder of success is different from that of the economic administrator, who climbs upward through the academic degree and demonstrated technical competence. Moreover, the number of power positions held by economic administrators has declined significantly since Stalin's death.

"The chances for a 'managerial revolution' seem slim indeed" in the Soviet Union, the authors of the MIT-Princeton study state. "It is extremely dubious that Russian management constitutes an independent threat to the party's monolithic control."

The Soviet job of turning out managerial resources geared for economic development is termed "remarkably proficient." The conclusion is that emphasis on high-talent manpower has been vital to Russia's rapid growth to date and is likely to play a major role in future growth.

It is noted, however, that the communists' incessant pressure on managers to meet short-run production goals appears contrary to western ideas of conditions which breed long-run managerial efficiency.

The authors pose a crucial question for the future:

"How aware are the Soviets that their managerial needs are becoming more complex, that their economy will require greater emphasis on quality and breadth of training, and on long-run utilization of high-talent manpower?" The answer is that there are recent indications that the Russians do recognize the need to keep innovating to meet tomorrow's managerial requirements.

No political dominance

The possibility of the professional managerial elite rising to a position of dominance is as slight in other countries as in Russia, Dr. Harbison and Dr. Myers believe. There is little evidence to support such a trend even in the most advanced industrial nation—the United States.

A new kind of statesmanship has been developing within U. S. professional management which recognizes the public consequences of private actions and exercises considerable restraint in the use of economic power to serve business interests. The rising level of business education, the challenge of unions, and the pressure to satisfy consumers tend to orient American business management toward community service rather than exploitation.

In addition, management is merely one of many economic, political and social interest groups. The authors point out:

"Whenever management claims to be the leading group or even the most powerful of many leading groups, it is likely to be rebuffed, investigated, and shorn even of some of its legitimate power within its own domain. In the United States, management's political objective is to keep government out of business rather than to get itself and business into government."

As management becomes more professionalized, education and brains become the keys to the doorway which leads to a managerial position. One result of this is that managers, coming from a variety of backgrounds, have diversified political convictions and no sense of collective political direction.

Diminishing managerial authority

Another result of increasing industrialization shown by the study is that employers and managers are often forced to become less authoritarian and paternalistic toward their workers. They begin to function as constitutional managers, sharing their power with government and unions and showing a

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The democratic-liberal countries such as the United States, Great Britain and Sweden have this type of philosophy more than others. Authoritarian and paternalistic practices are still common in France and Italy, where politically oriented labor movements are weak at the plant level, and in Japan, where the social structure emphasizes unquestioning loyalty of subordinates to superiors.

In Russia there are indications of a growing constitutional relationship, with the trade union being pushed more and more into its traditional role of the watchdog over worker interests. It is too soon, however, the authors say, to determine whether this change is temporary or permanent.

A further development in Great Britain is cited as likely to occur in other countries. British employers share their authority with trade unions through industry-wide bargaining, but as a result have won increasing control at the plant level. A new form of paternalism appears to have grown up, with personnel policies initiated unilaterally by management or in consultation with plant committees which are usually separate from the union.

Need for skill

Like capital, high-level managerial resources must be accumulated and set to productive use if industrialization is to be achieved. Progress is made possible by a substitution of both capital and management for labor, and the proportion of managers in the labor force must increase as industrialization proceeds.

The cultivation of managerial talent is critical to the industrialization of underdeveloped countries, but the study has revealed that few such countries have instituted planned booster programs to give themselves the trained manpower needed for the industrial take-off. The need for education in engineering and applied science is emphasized.

Nearly every industrial country has fallen short of peak utilization of its high-level manpower talent, and this may account for some of the apparent shortages, Drs. Harbison and Myers state. Only infrequently is there adequate delegation of responsibility and authority down through management as a means of increasing the experience and competence of its junior members. Many middle management offi-

cials are frustrated in organizations where top management either does not trust its subordinates or doubts their ability or willingness to take on added responsibilities.

Even the advanced industrial countries show an almost universal tendency to assign trained engineers and scientists to tasks which could be performed by persons with lower technical skills, the study reveals. The authors point out that high-level human resources cannot be stockpiled for future corporate expansion—they deteriorate rapidly unless used effectively, because they are denied the stimulus of accomplishment and growth.

Future of world management

From the data accumulated in their research, Dr. Harbison and Dr. Myers have drawn three broad conclusions which can be used to project management's development into the future:

► The general direction of management development is the same in all advancing industrial societies. Management will grow toward professionalization and constitutional authority whether it be nurtured in a market economy, socialist economy or totalitarian economy.

► The pace of the march toward industrialization may be accelerated by early development of dynamic professionals or retarded by tenacious patrimonial or political management.

The timing, amount and appropriateness of investments in education are also a critical factor in determining the speed of economic growth.

► There is little reason to fear that the working masses in modern industrial states will be exploited by the emerging professional managerial class.

Industrialization makes possible a higher standard of living and the odds are in favor of greater recognition of the rights and dignity of the individual worker as industrialization advances.

The importance of high-level manpower will continue to grow, and educational and business institutions will have to meet the challenge to generate it. The authors conclude:

"The second half of the Twentieth Century, even more than the first half, will be an era of technical and managerial brainpower in the service of an industrial society." END

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New Cabinet member favors minimum control

Here are fundamental beliefs of Commerce Secretary Frederick H. Mueller on inflation, economic growth, business recessions, taxes, balanced budget, profits, trade with Russia



ROBERT PHILLIPS

THE BEST THING government can do for business is to leave it alone.

That's a fundamental tenet of the new Secretary of Commerce, Frederick H. Mueller.

"I believe the chief federal responsibility," he says, "is to maintain a favorable climate for private enterprise—one that inspires confidence, the generator of increased business activity. I have great faith in the individual American businessman, his ingenuity and his ability. I don't think that industry wants to be spoon-fed or controlled by any government agency and it certainly doesn't want Uncle Sam to engage in business activities that compete with private enterprise."

The new Secretary can be expected to exert influence in the Eisenhower Administration calculated to spur sound economic growth without inflation and with a minimum of government interference.

Mr. Mueller is a former Grand Rapids, Mich., furniture manufacturer who became Assistant Secretary of Commerce for Domestic Affairs in 1955. Last year he was elevated to Under Secretary and his appointment was approved by the Senate in June of this year. He was appointed Secretary to succeed Adm. Lewis L. Strauss, whose confirmation was denied by the Senate. Mr. Mueller's new appointment was confirmed last month.

"A realistic optimist" is the tag Mr. Mueller has selected for himself.

"The record of our economy during the past few years is one of the main reasons for my optimism," he explains. His view of the future of America is another.

The way of creating the best climate for economic progress, according to Mr. Mueller's philosophy, is through less interference and regulation.

"Don't misunderstand," he cautions, "I feel that in the public interest business has to be regulated in certain segments but I am a great exponent of letting business



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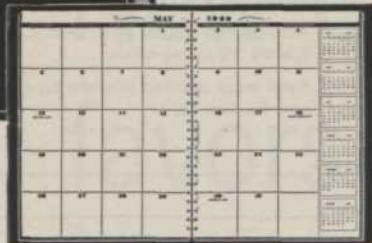
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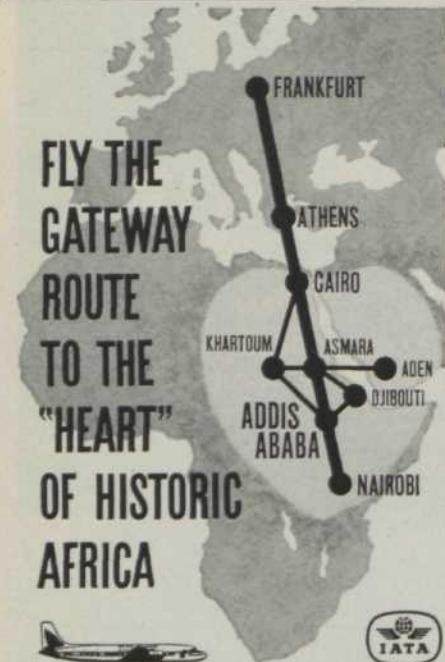
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CABINET MEMBER

continued

alone to the greatest extent possible." On economic controls he adds:

"We in the Eisenhower Administration are opposed to strait-jacketing our economy with controls. We put a halt to price and materials controls when we came in. Controls are bound to be arbitrary, to develop inequities and work hardships on innocent people—to say nothing of their effect on our free competitive enterprise system which we prize so highly."

Mr. Mueller regards himself as a middle-of-the-road conservative—but notably one who favors progress. He abhors the reactionary who says no to all suggestions of change and improvement regardless of their necessity and worth. He is interested in conserving traditional values and seeks progress through constructive change.

Washington observers think Mr. Mueller's star will rise significantly as a top member of the Eisenhower Cabinet. You can expect him to strengthen the Administration's bloc of strong men against irresponsible federal fiscal operations.

Here is a summary of his views on issues of vital interest to businessmen:

INFLATION

Secretary Mueller is convinced that inflation—creeping or otherwise—is undesirable. He disagrees with the concept currently being pushed by a few economic thinkers that a little inflation is a good thing.

"It is disturbing and discouraging," Mr. Mueller says, "that the value of money over the years has gone down."

"Most people are conservative. They, too, oppose unnecessary spending of their tax money. They favor keeping down the cost of living. In working for a balanced budget and against inflation, I believe the Administration has the American people's active support. Moderation is the majority mood."

You can expect the new Secretary of Commerce to push vigorously for policies calculated to combat any inflationary tendency.

Barring a significant emergency, such as war, he sees no reason to expect any "tremendous upsurge of inflationary pressures."

ECONOMIC GROWTH

The future of America is bright. Mr. Mueller sees prospects over the

long haul for uneven economic growth—"business always has its ups and downs." Not all companies and not all industries will share prosperity alike.

"In my opinion," he says, "recessions—if they can be called that—are likely to be sidewise movements rather than downturns." But on the whole, as he sees the future, the long-term economic trend is upward.

"If the steel strike does not sand the gears," he says, "we should reach a \$500 billion economy at the end of the year. Such record gross national product need not be the altitude mark; rather, it can be the take-off point for a 1960-1970 decade of high employment and unequalled prosperity for everyone. That is, if government, business and labor have enough sense and backbone to battle inflation and to encourage healthy growth."

Mr. Mueller believes the best economic growth can be achieved through a minimum of government interference in business activities.

As chief executive in the U. S. Department of Commerce, Mr. Mueller will press for policies that create business confidence and favor steady, healthy economic growth by providing a favorable climate for new and expanding business operations to flourish. Government must not harass or interfere in "the logical and legal opportunity" for business to improve itself and benefit its customers.

BUSINESS RECESSIONS

An economic nosedive is unlikely.

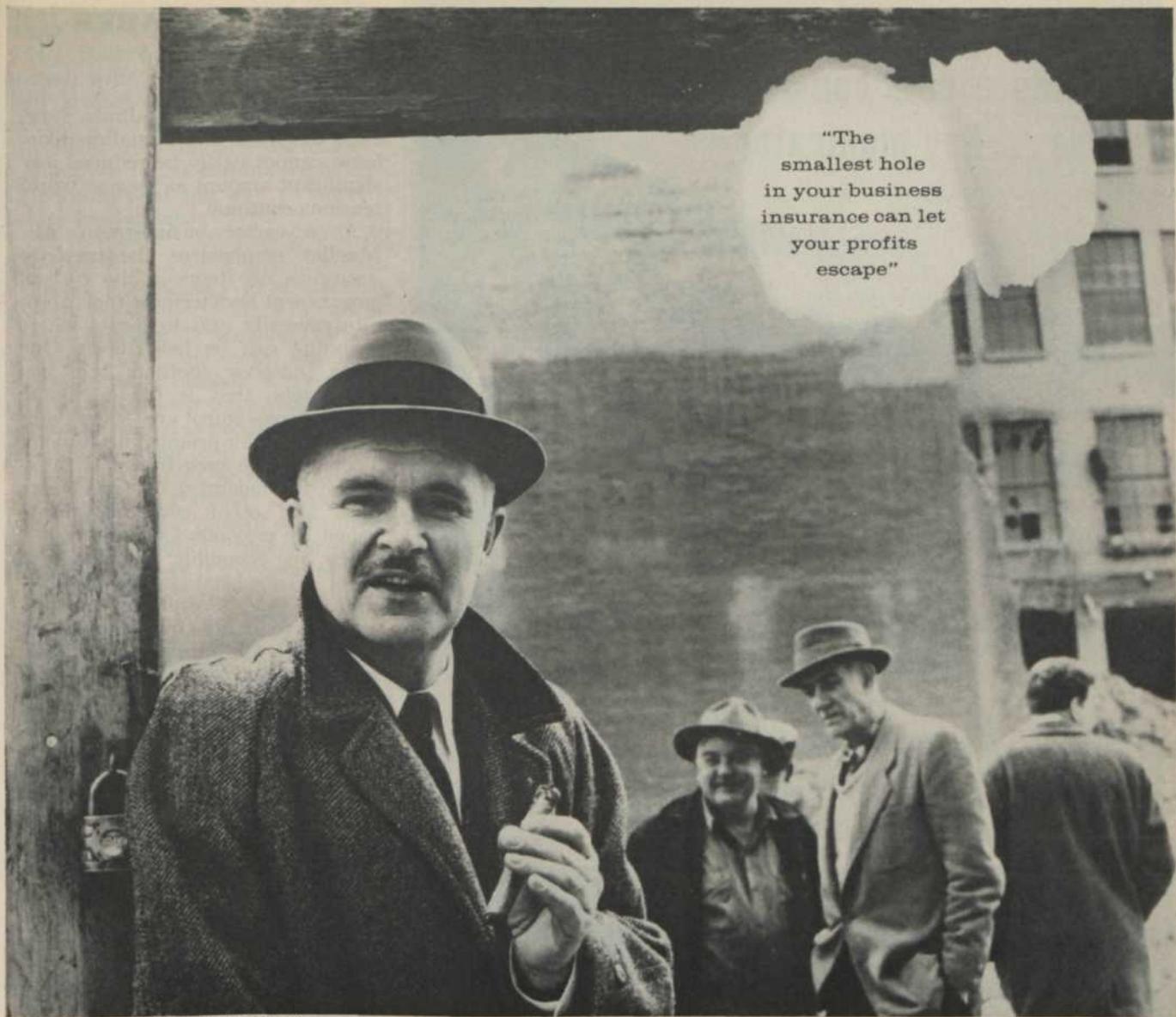
The Secretary believes the U. S. economy should not experience such a catastrophic depression as the type we had in the 1930's. A variety of measures could be used against a long-lasting and serious downturn. If such a situation were imminent, he is sure any Administration would take "heroic measures" to stop it.

"On balance," he says, "I believe that, while a depression might be possible, many stabilizing factors are at hand to make such a deep slump unlikely in the near future." He thinks this is true partly because of the faith Americans have in the future and the faith, too, that government would never permit business and employment to slip to the peril point.

TAXES

The operations of government cost more than the new Secretary of Commerce thinks they should.

Taxes are higher than he would



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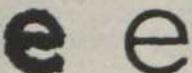
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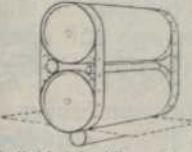
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CABINET MEMBER

continued

like to see them. He admits, however, the high cost of national defense cannot easily be reduced any significant amount as long as world tensions continue.

As a career businessman, Mr. Mueller emphasizes the need to scrutinize all items in the cost of government to determine their absolute necessity and to locate where spending can be held down. One thing, however, bothers him tremendously; that is the degree to which large sums are spent with little chance for prompt curtailment. These include such things as interest on the federal debt, farm subsidies, and other programs established by previous Congresses.

As an economic stimulant in event of a substantial business decline, the new Secretary would favor tax reduction over raising expenditures for unproductive public works. He regards public works programs as primarily a responsibility of the states and feels that the federal government in general should confine its spending to other areas. On the other hand some federal programs, such as the interstate and defense highway system, serve as economic stimulants and he believes the impact of this program is tremendous.

A more widespread stimulus to the entire economy, however, would come at the proper time from selective tax reform to restore incentives for private saving and investment in new ventures. However, he does not favor tax reduction which would result in deficit spending. Economy in government, he thinks, should be one of our chief current and long-term goals. This could lead at the appropriate time to the lower level of taxation which he considers desirable.

BALANCED BUDGET

He places reduction of the national debt at present ahead of a major tax cut. The interest cost alone—estimated at \$8.1 billion for fiscal '60—accounts for more than 10 cents of each budget dollar.

He would not jeopardize the national safety to achieve debt reduction. Survival must always have top priority.

Mr. Mueller considers the President's effort to balance the budget as one of the "great things that the Eisenhower Administration has done." This effort, he is convinced, has helped create long-run business

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optimism and has been one of the reasons for economic growth.

He believes that a balanced budget, with the prospect of some debt reduction, could provide an economic stimulus that would help boost the economy, thus making an even larger surplus possible. This could lead the way to lower future tax burdens.

PROFITS

Profits are the key to economic growth.

Mr. Mueller is confident that everyone, including more government and union officials, will recognize this sooner or later. Wage increases unrelated to productivity injure the economy.

"Sooner or later," he says, "labor will realize that merely to get a larger piece of the present economic pie is self-deception, that the one thing that matters is the creation of a larger pie so everyone, including labor, can have larger pieces."

Better tools and better methods, resulting from research are chiefly what boost worker productivity, Mr. Mueller says.

He adds: "I do not feel that labor should get the entire benefit of the increase in productivity. A great benefit to the economy and to the workers themselves would be to pass on the savings due to increased productivity in the form of lower prices."

He adds that management should realize this as well.

RUSSIAN TRADE

Mr. Mueller favors the expansion of trade in peaceful goods with the Soviet Union but he believes nothing should be traded which might jeopardize our national security. He is against actions that make it easier for the communists to cause economic trouble for the people of the United States or the free world especially nations that sell us minerals, whose market the USSR would seek to capture.

"We have more than 900 product categories that require no export license at all," he says, "as well as a vast number of other items that can be licensed.

"Yet the Soviet Union buys only a few. Problems of credit, barter and other matters limit our trade in nonstrategic items.

"Whenever trade in peaceful goods is to our advantage as well as theirs, we are willing to do business with Soviet Russia. And we are willing to explore any methods of approach to such trade, consistent with our national interest." END

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GROW YOUR OWN MARKETING TALENT

Here's how to beat the scramble
for suitable and experienced men



BUSINESSES EVERYWHERE, large and small, are looking for competent marketing direction.

In some companies a good marketing director is paid more than the president. Men who have made records for themselves in this field are continuously bombarded with offers. Executive placement firms have more requests for marketing managers than any other type of executive.

Behind the scarcity has been a fantastic mushrooming of the marketing concept: gearing the business throughout to satisfy customer needs.

The man who does this for a small company may not be called the director of marketing but, whatever he is called, he also needs to broaden his concepts. Many a sales manager, for example, who used to be concerned only with getting orders, today finds himself responsible for handling a multitude of functions which used to be neglected or dealt with as nonselling activities.

Marketing development is even more important in the smaller company; first, because the top marketing executive doesn't have the range of specialists to call on for help; second, because small companies have less opportunity to experiment. A dud can cost the organization dearly.

Marketing functions vary from company to company, but in any typical manufacturing and distributing organization they will include some, or all, of these:

1. Sales
 - Organization, training and compensation*
 - Field and home office operations*
 - Planning and policy determination*
 - Forecasts, budgets and controls*
2. Advertising
3. Promotion
4. Customer, trade and public relations
5. Marketing research, including motivation research and distribution cost analysis
6. New product initiation and development

GOOD MARKETING DIRECTORS ARE HARD TO FIND . . .

7. Pricing
8. Merchandising and packaging
9. Technical customer service
10. Inventory control

Small wonder, then, that a high-caliber director of marketing is hard to find, because supervision of such a department calls for greater and greater ability, versatility and experience.

According to one authority, the marketing director should have a strong voice in research, development and production decisions. He should not only be sales-minded but thoroughly grounded in economics and sensitive to the possibilities and limitations of mass-production techniques. Moreover, he should spell out directions in product research, for new products must not only fit into the type of equipment, skills and techniques of the company work forces but must also be ones which can be profitably distributed through existing channels.

Developing a man with these skills is basically a top management responsibility. The top marketing executive, the vice president of sales, and other first-rank executives should collaborate in its execution. How to fill a marketing director's job must be learned by doing. A successful program will provide these four general elements:

1. Broad experience
2. Wide associations
3. Effective motivation
4. Continuous orientation

Realizing that such a program should have been started five years earlier is little consolation. There are expedients, however, for companies caught without a talented marketing director. Some of these are temporary, some not. They include:

Retention of authority at the top

Often the president or executive vice president retains the authority to make major marketing decisions and personally direct marketing functions. Where these executives have the time and skill, such a solution can work for a time. However, it prolongs the problem of getting a competent marketing man, may delay marketing decisions and usually makes it necessary for the first-rank executives to neglect other vital management problems.

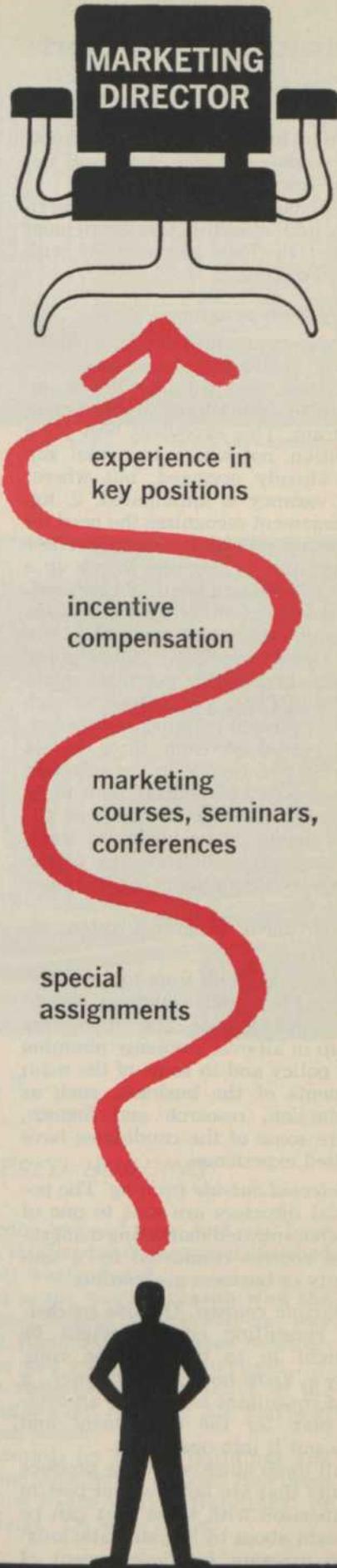
Committee management

Some companies feel that the talents for directing an over-all marketing program are available—but not in one man alone. In such cases management has often resorted to the marketing committee. For certain marketing functions, such as planning, committee management works well. However, in the operating area, it usually divides responsibility and hampers clear-cut decision-making. This results in delays, compromises and frequently no action at all.

Bringing in an outsider

The primary difficulty of this plan lies in finding a man who:
Has top marketing experience but is still young and on the way up,
Will be an aggressive and active director but at the same time fit tactfully into the new company,

Will be permanent in his new post, having just left an equivalent



HERE'S HOW TO DEVELOP YOUR OWN . . .

MARKETING TALENT

continued

position for higher pay. Will know his employer's industry, yet not come from a competitor.

Will have the breadth of experience and also the loyalty demonstrated by long employment with one company.

Short-term program

Some companies facing a shortage of marketing executive talent find their best solution lies in an intensive short-term development program. This expedient best fits a situation, not where an actual gap has already occurred, but where: 1, a vacancy is anticipated, 2, top management recognizes the need for grooming subordinates, or, 3, where a company is planning to set up a new division as a result of new product development or an acquisition.

Companies where such situations develop often select a small group of executives with potential qualifications. These men are put through a concentrated training and evaluation period of from three to six months which ends in the selection of the most outstanding man to be marketing director. Sometimes the weak points shown up in the training program are bolstered by particularly strong supporting management talent.

Short-term programs often include:

Special counsel from top management. First-rank company executives indoctrinate the marketing group in all-over company planning and policy and in some of the main elements of the business, such as production, research and finance, where some of the candidates have limited experience.

Selected outside training. The potential directors are sent to one of the concentrated marketing management courses conducted by a university or business association.

Outside counsel. Outside marketing consulting counsel might be brought in to broaden the company's know-how. If necessary, a good consultant can set up an overall plan for the department and help put it into operation.

All these quick solutions produce results that are only second best in comparison with those that can be brought about by a systematic long-term program for development of marketing executives. Companies with well organized executive development programs carried out

over a period of years don't get caught with top executive jobs that have to be filled in a hurry.

Broad experience

An early start. The process of providing experience should start as far down the line as possible, preferably with newly recruited college graduates. Recruit with top executive talent in mind. Even if you're hiring a man with full knowledge that he'll be used in an important specialty such as sales or marketing research, you must still keep in mind the eventual goal of making him a marketing director. Pick in the high-intelligence bracket and try to get a man with more ambition, drive, intellectual capacity and knowledge than you would require for a single specialty. To guarantee a steady supply of executive marketing manpower, recruit as many trainees every year as the size of the company will permit.

Well rounded training courses. The first step is to put the graduates through comprehensive training courses, frequently beginning with sales. Other courses cover the techniques of market research, product planning, advertising and other marketing activities, as well as the significance of the total marketing concept.

Rotation in down-the-line jobs. An increasing number of companies start a process of rotation with various down-the-line jobs in the marketing department. Some companies consider this so important that they do it even at the expense of the company's immediate needs for men in the spots involved.

Experience in other fields. Most good executive development programs make sure that the candidate has a sound understanding of company functions outside of marketing —functions such as production, accounting, finance and general management. In an increasing number of companies, the men actually spend time in these fields.

Experience in key marketing positions. Widespread practice is then to give the new talent as much experience as possible in a succession of key marketing positions. During this period a man should learn to delegate authority, establish basic objectives, and assume profit responsibility. One good succession of positions with corresponding marketing functions might be:

Job 1—Market Research Assistant, market research; Job 2—Field Salesman, selling; Job 3—District Manager, selling and supervision;

Job 4—Assistant Merchandising Manager, merchandising and sales promotion; Job 5—Advertising Manager, advertising; Job 6—Sales Manager, selling; Job 7—Marketing Manager, marketing.

Small companies often combine two or more marketing functions in one position, such as advertising and merchandising, or marketing research and marketing administration. However, all in all, the principle of job rotation can be applied as successfully in small companies as in big ones.

Many large companies carry on a system of job rotation where cross-fertilization is practiced throughout a country-wide pattern of plants. One objection is that executives have to make more than the ordinary number of moves; families must readjust and children must change schools.

Special assignments. One good means of developing potential marketing executives is to put them on special assignments. Some of these are carried out along with regular duties. Others are executed away from the regular job.

If a company is planning to set up a new division, one of the potential marketing directors might be assigned to conduct a preliminary study of the costs of different methods of selling in that market, as well as the best policies of sales promotion, pricing, credit allowances, advertising, dealer training, merchandising and development of the territory in general.

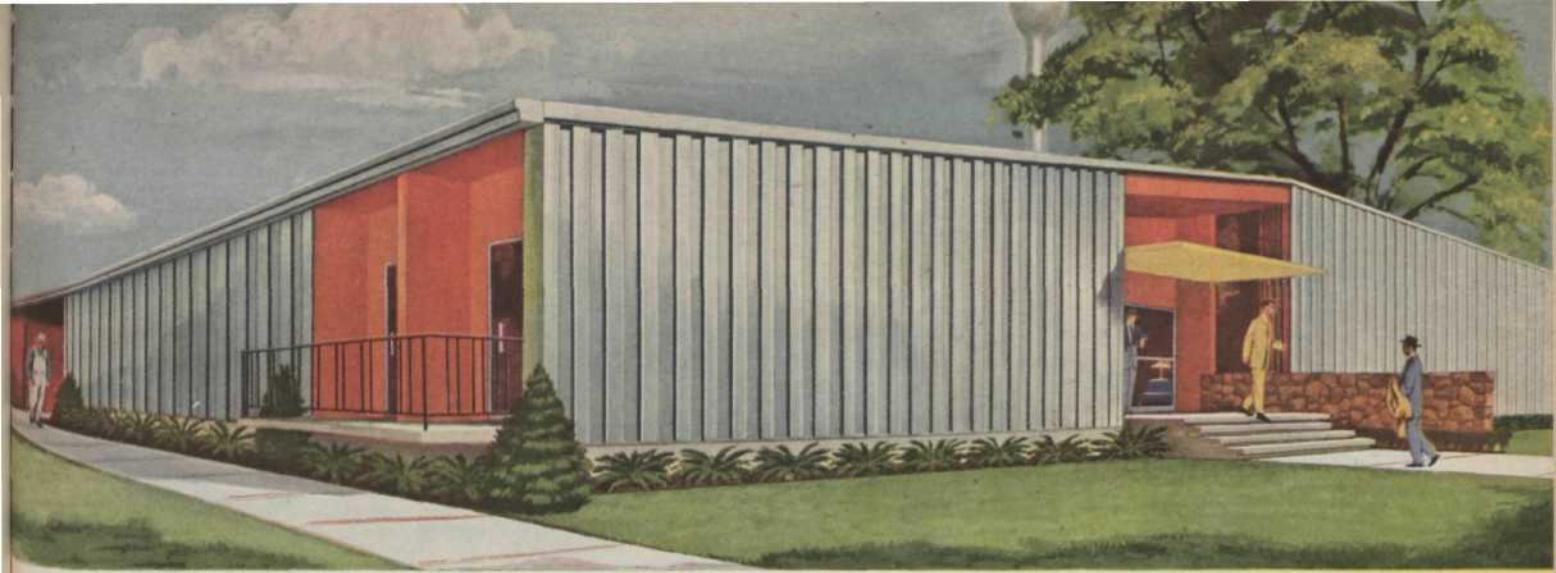
Widespread associations

Knowledge of the industry. The alert marketing executive plugs himself in on what's going on in the world. He is active in trade associations and in the affairs of the industry.

Marketing courses, seminars and conferences. Courses, seminars and conferences are part of the continuing training which keep him up-to-date and fill in an area in his know-how that the company can't provide. Practical and applied courses in advanced management are given by the American Management Association, the National Industrial Conference Board, and other organizations. There are also courses at Harvard, Columbia, California, Chicago and other universities.

Reading. He also keeps abreast of developments through books, magazines, financial publications and newspapers.

Marketing counsel. Both the marketing executive on the way up and



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MARKETING TALENT

continued

the one who has arrived may work with marketing consultants and the majority of them do. Such an executive may confer with counsel on the marketing plan itself or perhaps on some complex new problem that arises in the course of a day's work.

Effective motivation

In large part, development for upper levels of management must be self-development. Those in charge of the program can provide the climate, the opportunity and the encouragement. But the actual job is up to the man himself. To make sure that a man will be stimulated to develop himself to the fullest, the most advanced companies provide:

Incentive compensation. Where many firms used to operate on straight commission, they have now switched to a combination of salary and incentive.

Merit advancement. Salaries and promotions are tied to job performance, particularly in the case of managerial responsibilities.

Participation. Executives are given an opportunity to help formulate plans, objectives and budgets. This provides a sense of participation and makes a man feel that he is part of the company.

Recognition. Personal recognition from the boss for extraordinary effort and accomplishment encourages a man to try even harder. If he doesn't get it, his interest is likely to fall off.

Good example. A good boss sets an example in management. If he operates by whim and impulse, it will be hard to stimulate a subordinate to sound practices. On the other hand, if the boss is well organized, the subordinate will be motivated to follow.

Continuous orientation

All of these things must be worked out against a background of continuous orientation. The means of providing this orientation are basic operating equipment. But in today's fast-moving market, they must be constantly up-dated. For that reason, they are treated here as orientation devices for day-to-day shaping of executive marketing talent.

Position descriptions. Marketing responsibilities have become so extensive and so complex, right down to the salesman level, that it is essential for everyone in a marketing

position to understand what functions he is expected to perform, what responsibilities he has been given and what authority he has. Thus the position description.

Organization charts. Also, a man must understand where he fits into the total organization and what relationships he has with other people. He finds this information on a good organization chart if it is kept up to date.

Performance standards. Individual goals or performance standards must be set up to show what a man is expected to sell, how he's expected to improve the work of his subordinates or how he's supposed to control costs in his territory.

Performance reviews. Every year there should be a review of what each man has accomplished in terms of his performance goals. With this data, it is easy to tell him how to increase his effectiveness. These reviews should be in objective, concrete terms to afford an exact basis for comparison.

Personal supervision. The marketing executive should see his men frequently to know what they are thinking and doing. When personal contacts can't be made, letters and bulletins should replace them.

Statement of over-all goals. Along with statements of personal goals, there should be a master marketing plan coordinating all marketing objectives. Above and beyond this master plan, there should be a well defined statement of company policies, practices and goals.

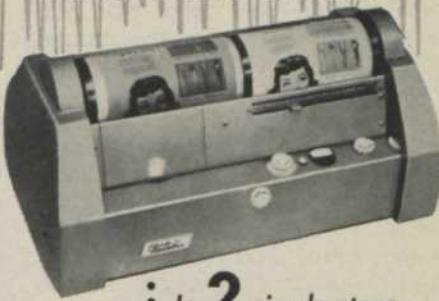
A management development program cannot be limited to one or even a few people. The whole organization must be upgraded to make the top man fully effective.

Such are the outlines of a marketing development plan which can serve large or small company alike. If today's economy achieves its predicted expansion, new demands will arise, not only for top-notch directors but for first-rate marketing executives two and three deep throughout the organization. Forward-looking companies can no longer put off organizing a marketing executive development program that will produce them.

—ALFRED B. DE PASSE AND
GEORGE P. BUTLER
Barrington Associates

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Unions use pay formula as starting point for still higher demands, employer finds

labor contracts. The adjustment is roughly one cent an hour for every half-point change in the CPI. A one-point rise in the index will add about \$200 million to the annual wage bill in direct and related increases.

However, escalator contracts covering some two million workers—about half of those under such arrangements—expire this year. They are mainly in steel, aluminum, meat packing and railroads. Five-year escalator agreements in the electrical industry, covering another 300,000 workers, run out next fall. These industries doubt the wisdom of the escalators.

The steel industry made it a major issue in the steel strike. Industry negotiators said they opposed renewal of cost-of-living adjustments because "we are convinced that they have been self-defeating as well as self-motivating. They have both fed on inflation and induced inflation." One executive called it "a vicious-circle arrangement."

In three years, steel workers have received annual increases totaling 28.7 cents an hour and cost-of-living increases of 17 cents, for a grand total of 45.7 cents. When costs of improved fringe benefits are added, the total increase runs to more than 65 cents an hour.

The effect of higher wages in basic steel is multiplied because, as Roger M. Blough, chairman of United States Steel Corporation, points out, the wage increases "ripple out over the entire economy as other unions strive to catch up." As an example, wage negotiations in the aluminum industry were deferred to await a settlement in basic steel which could serve as a pattern.

Wage and price increases in other industries eventually are reflected in the cost of supplies and services bought by the steel industry. According to some estimates, a wage increase of one cent an hour in steel wages and fringe benefits costs the industry \$15 million a year in higher labor costs and \$15 million more for supplies, services and taxes.

The railroads would like to eliminate the cost-of-living clause from their contracts. In three years the clause brought 1 million employes

increases of 13 cents an hour on top of annual increases totaling 26½ cents. The extra 13 cents is said to have cost the railroads \$260 million a year. The contracts expire Nov. 1.

The meat-packing industry last year paid out more in cost-of-living increases—eight cents an hour—than it did in a previously promised deferred increase, which was 7½ cents. These contracts were to expire on Aug. 31.

The electrical industry gives evidence that it will make a stand next year against the cost-of-living or any other form of predetermined wage increase.

General Electric Company deplores the increases it has made thus far under its five-year contract as contributing to the wage-price spiral and feeding inflation.

General Electric's complaint is directed at wage increases which exceed the increase in productivity.

"Observations over the past 10 years have confirmed that unions assert their monopolistic power to make any productivity formula only a basis from which to start bargaining," the company said in a published statement. "Whatever hope there ever was that formulized determination of wages could avoid inflationary pay results has now been dashed on the rocks of experience."

To help guide its future course, GE management currently is analyzing whether, over the past four years, it would have been better off without a long-term escalator contract; whether the wage increases would have been smaller and less inflationary. Pay raises, for the same period, have totaled about 28 cents in four annual increases and 16 cents in cost-of-living boosts. The five years are up next September.

Westinghouse Electric Corporation, which has a similar agreement, has reached no conclusions about escalators, but a company official told NATION'S BUSINESS that they wonder about them.

Westinghouse has had to pay two cents more than GE in cost-of-living increases because of a slight difference in the formula. The Westinghouse formula calls for a one-cent

adjustment for every .5-point fluctuation in the CPI. GE's is one cent for every .5 per cent fluctuation. With the CPI around 124, the GE formula requires a slightly larger fluctuation to justify a wage change.

Experience with wage escalation in foreign countries supports the view that it is inflationary.

While wages are usually linked to prices after a period of prolonged inflation, such measures tend to perpetuate distorted wage relationships of the past and limit the flexibility of the economy in meeting problems of the future, according to E. M. Bernstein, former director of the Research and Statistics Department of the International Monetary Fund.

"Every system linking wages with prices is open to the danger of a renewal of the wage-price spiral as a result of a temporary or fortuitous rise in the cost of living," he said in an article published by the Fund which also included a study of escalation abroad.

Private wage escalation is practiced in some countries, including the United Kingdom, Austria, Denmark, Italy, Belgium, Sweden and Israel. Brazil, France, Denmark, Switzerland and Chile have government programs, although Brazil and France cover only minimum wages and Denmark and Switzerland cover only civil servants. Chile had to modify its formula because of tremendous inflation. Two other countries, Australia and Finland, have dropped escalation.

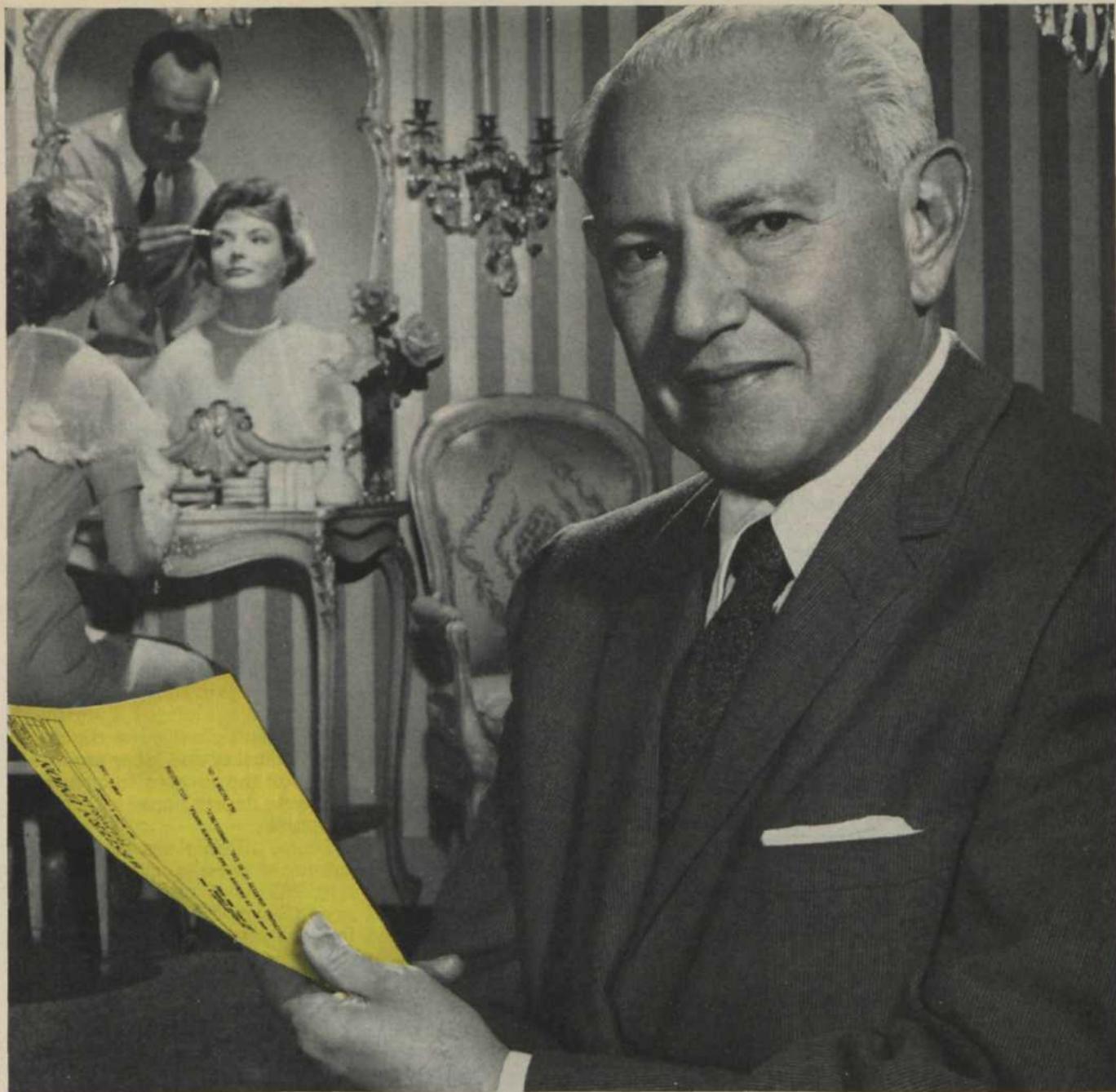
In 1928, Chile began a program of raising wages at the beginning of each year by a percentage equal to the previous year's rise in the cost of living. A vicious circle developed.

Between 1937 and 1956, wages increased six per cent at the end of three years, 43 per cent at the end of six years, 250 per cent at the end of 10 years, 1,012 per cent at the end of 15 years, and 8,254 per cent by 1956, the end of 20 years.

At that time American consultants were brought in to recommend a program to end the inflation. This program was put into effect in 1956. Besides tax reform and reduced government spending, it modified the formula for escalation so as to allow wages to rise only half as fast as the cost of living.

In Australia, escalation of federal wage awards, which cover about half the workers, was discontinued in 1953 because of the tendency of wage increases to exceed expected gains in productivity. This hindered expansion.

In most collective bargaining



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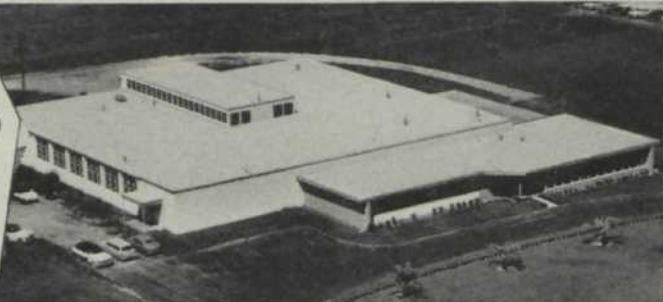
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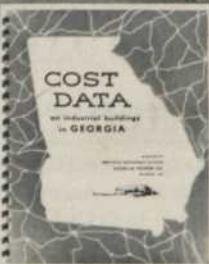
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WAGE ESCALATORS

continued

agreements abroad, the escalation does not compensate for fractional changes in the cost of living, as it does here. In the United Kingdom, for instance, many contracts require a rise of 10 points in the cost-of-living index before a wage adjustment is required. In Austria, the index usually has to rise five to 10 per cent; in Belgium, two and a half per cent.

This permits a wider range of variation within which fluctuation of the index has no influence on wages. This provides a lag that minimizes the inflationary impact.

In the United States, a variation of half a point in the CPI can affect wages under most escalator agreements.

In West Germany, which experienced escalation and runaway inflation after World War I, the government is decidedly against escalation.

A shift away from deferred and cost-of-living increases to hold down inflationary pressures will probably lead to more annual bargaining. This obviously will raise the threat of more strikes and labor unrest because of the greater frequency of contract negotiations with strike potentials.

Union officials see annual bargaining as the alternative to escalators. "Without escalator clauses," says George Meany, president of the AFL-CIO, "there would be no incentive for labor unions to sign contracts for longer than one year."

John T. Dunlop, professor of economics at Harvard University and a labor relations expert, sees rising wages and prices as the price we must pay if we want labor stability.

"How high a price is the community willing to pay for price stability in terms of more labor strife?" he asked recently. "A lesser rate of wage increase—and a lesser rate of price increase—probably requires more strikes."

END

REPRINTS of "How Wage Escalators Boost Living Costs," may be obtained for 10 cents each or \$7.00 a hundred. The related "Wage Outlook" articles, "What Comes After Steel Strikes," page 33, 10 cents each or \$7.00 a hundred; and "Misused Price Figures Boost Prices," page 38, 15 cents each or \$10.15 a hundred, may be obtained postpaid from Nation's Business, 1615 H St., N.W., Washington 6, D. C. Please enclose remittance with order.



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Put trouble-shooters on target

Three steps can help you solve company problems

TROUBLE-SHOOTING competence is a valuable asset. It enables a company to get off the hot seat of day-to-day crisis management and to operate more professionally by means of preventive management.

It means smoking out the symptoms of the problem situation, getting to the core of a problem, attacking the underlying causes, and following through with measures to assure that things don't bog down again in the future.

It also means preventing recurrence of a problem which eats up company time, energy and money.

Trouble-shooting is best handled by someone within the organization who has a nose for troublesome situations and the ability to tackle them.

Since every company, large and small, has its share of troublesome situations, it pays to have trouble-shooters about—not as an elite corps or a special organization but merely as dependable people who can be called on in an emergency and depended on to perform well.

The talents needed are not rare, though they are frequently unidentified and not sharpened to their greatest effectiveness. Many companies can, therefore, reduce costs, cut down waste, and get new systems and procedures launched more smoothly by cultivating their own crop of trouble-shooters.

To develop them a company has only to:

1. Know the qualities of good trouble-shooters and be able to identify them.
2. Indoctrinate them in how to do a trouble-shooting job.
3. Appraise the effectiveness of previous trouble-shooting ventures.

This program will get away from the almost traditional practice of leaving trouble-shooting responsibility exclusively to the industrial engineer on production problems, the controller on financial problems, and others in staff specialist capacities on still other problems.

While it is sound practice to use these people for trouble-shooting assignments, the fact is that production foremen, purchasing agents, and office supervisors can often measure up to trouble-shooting situations such as these:

An aircraft company had more than its share of headaches because correspondence with contractors was poorly written, would backfire, and require additional letters and telephone calls.

After a while it became standard practice to route

the tough correspondence to the head of the facilities department to be answered. He was a real craftsman in drafting straightforward and effective letters. But, in time, his in-basket was becoming too bulky with this kind of correspondence. The company let him do some trouble-shooting. He would sit down with department managers, show them how to dissect a complex piece of correspondence, coach them in the art of skillfully answering. Now he is on call for such trouble-shooting assistance to other divisions.

By using such men in this way a company is able to release the staff specialists to spend more time on other important functions of planning, special research studies, or developing control systems.

Qualities

Trouble-shooting talent is where you find it, and not necessarily in the boxes shown in the organization chart.

Among the trouble-shooter's key attributes are these:

Open-mindedness. He must approach the problem situation with a keen desire to become thoroughly familiar with the systems and operations involved and needing help. He sheds any high-brow attitude of





Nose for situation

posing as the expert who has come in to bail 'em out. He avoids any prejudgment of the situation and any bias concerning the department, its people or the value of its contribution to the company.

Management-consciousness. He will make himself knowledgeable in regard to company objectives, policies, planning, and control. He makes it a point to understand budgets, rules and orders—and their limitations. Above all, he is conscious of the management issues at stake.

Insight. The competent trouble-shooter shows a capacity for getting the feel of a situation, for determining whether the problem is gradually working its way out for the better or is getting worse, and in sizing up its size and probable complexity. He shows a good sense of perspective in reconciling company-wide objectives with the objectives and activities of a particular department, in seeing the interdependence of organizational units and in linking one activity with another in the integrated whole.

Sense of pace. After he has sized up the troublesome situation, he understands when to crash through in record time, when to pursue a moderate pace or resolve that slow and easy does it.

Moral courage. Although the trouble-shooter is expected to exercise tact and get along with people, he has the moral courage to call the shots as he sees them. This may call for compliance with specifications, elimination of goldbricking, breaking down the walls of a little empire that has been quietly built over the years, or merely providing refresher training of certain personnel.

Communication effectiveness. He has a high tolerance point in consulting, exchanging views, asking questions, listening, backtracking for more information, confirming certain points and explaining the before-and-after of a situation. More significant, however, he must keep the communication lanes open

between himself, the specialists and the manager involved. The extent to which he can tap the informal organization through an understanding of its traditions, attitudes, values and feelings is important.

Ethics. Ethical behavior in respecting confidential reports, avoiding personal abuse and giving credit where due is expected of the effective trouble-shooter. If personal gain and recognition of his efforts are warranted, they will come from his superiors and not through design on his part.

Diagnostic skill. An effective trouble-shooter, having investigated the situation and assembled the many views, facts, experiences and observations, classifies these into meaningful units. Then he brings to bear his knowledge of diagnostic tools and his analytical abilities to isolate and verify the right problem and the real causes.

The personnel department of an electronics company had a rough time defending its projected workload data. Each fiscal period it was unable to present a clear justification, its budget request would be cut.

Tom Demery, a program director with a flair for figures, was detailed to indoctrinate the personnel officials in statistical methods, preparation of budget estimates, interpretation of data, and projections of workloads and manpower needs. After two fiscal periods the department is able to hold its own with the budget office. Tom is back at his regular post.

Indoctrination

The art of trouble-shooting can be taught formally or informally—within the company itself, in many instances, through the use of case studies in management, executive coaching, special assignments to tackle emergencies, serving on committees or task forces, job rotation and other means.

Once the organization knows the characteristics of a trouble-shooting venture and has identified the man with the qualities which mark a good trouble-shooter,



it must impart to him some important precepts and guidelines. These include principal do's and don't's:

Be conscious of management objectives at all times.

Know how far your responsibility and authority is to extend in undertaking the trouble-shooting mission.

Be resourceful, even imaginative, in using the largest number and the best possible diagnostic tools which are appropriate to the specific case.

Respect time and costs, schedules and budgets.

Consult with the manager and employees concerned and with others, as necessary.

Maintain good personal relationships so that those concerned will be well motivated to try to install the proposed new solution.

Be patient—the situation probably didn't grow overnight and will not be resolved overnight.

Above all—

Plan your strategy for undertaking the particular trouble-shooting assignment.

Among the don't's to which he should be alerted are these:

Don't go to it with prejudgments, fixed views, bias

Other possible abuses against which the company should be alert and establish safeguards include:

First, trouble-shooting ventures necessarily involve a clinical attack on a problem situation and, in being clinical, the trouble-shooter gets into some of the most intimate of family secrets of the work unit concerned. Every effort must be made to assure that these do not become conversation pieces at the lunch table, in the car pool or elsewhere.

Second is the possible abuse of the manager concerned—that is, not recognizing his authority, knowledge and ability and by-passing him or failing to tap his views and experiences fully. His pride and ego are involved just as much as is the specific troublesome situation.

Third is the possibility the trouble-shooter may exceed the bounds of authority and probe into areas neither necessary nor pertinent to the particular assignment.

Fourth, guard against this becoming a one-man reconstruction job. When the problem has been identified and the proposed solution accepted, implementation rightfully belongs to the manager of the unit and his personnel. The trouble-shooter's follow-up in the way of review must be done with discretion.

The assignment is approached logically and in sequence from start to finish. The well planned action includes exploration or research; gathering of information, facts, ideas, and views; isolating the problem; developing the solution; presenting the proposed solution; gaining its acceptance; installing it and following through with its implementation. The plan is definite and clear, with enough flexibility to provide for any unanticipated events.

The vital point is putting the real problem into sharp focus.

A paper products company which had moved to a small suburb was concerned about plant protection.

The assistant supervisor in the tabulating unit offered his services in developing a fire protection program. Earlier he had served on the police force in a nearby city. He has generated interest which resulted in the establishment of a plant protection committee, has helped to draft plant protection policies and has taken the initiative to organize and conduct training sessions for plant supervisors. A volunteer fire brigade has been formed, and fire protection devices and signal systems have been installed over and beyond the state requirements. He is now back at his post in the tabulating unit.

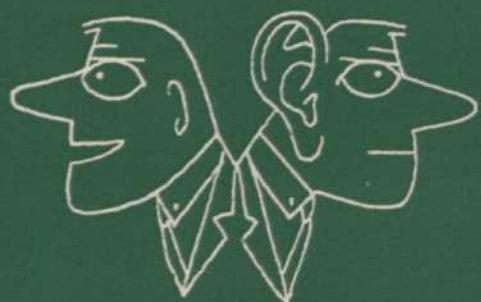
Finally, in trying to correct the troublesome situation we must be careful not to tamper with basic company policies. If a policy needs to be changed, this must be done in a straightforward and objective manner and so stated in the proposed solution. The decision to modify is to be made by others in the chain of command. The trouble-shooter cannot wink at policies and encourage others to do so in his eagerness to finish the job in the shortest possible time.

Appraising performance

A trouble-shooting job well done has certain characteristics. Among them are these:

The assignment must be well planned.

The planning must be such that the real prob-



Communicator

or prejudice concerning the situation and the people involved.

Don't create new problems in trying to solve the existing ones.

Don't be influenced by opportunists, malcontents or the old guard in the unit—stick to your plan and your scientific approach.

Don't go in for pep talks and morale-boosting—that's the job of the manager of the unit concerned.

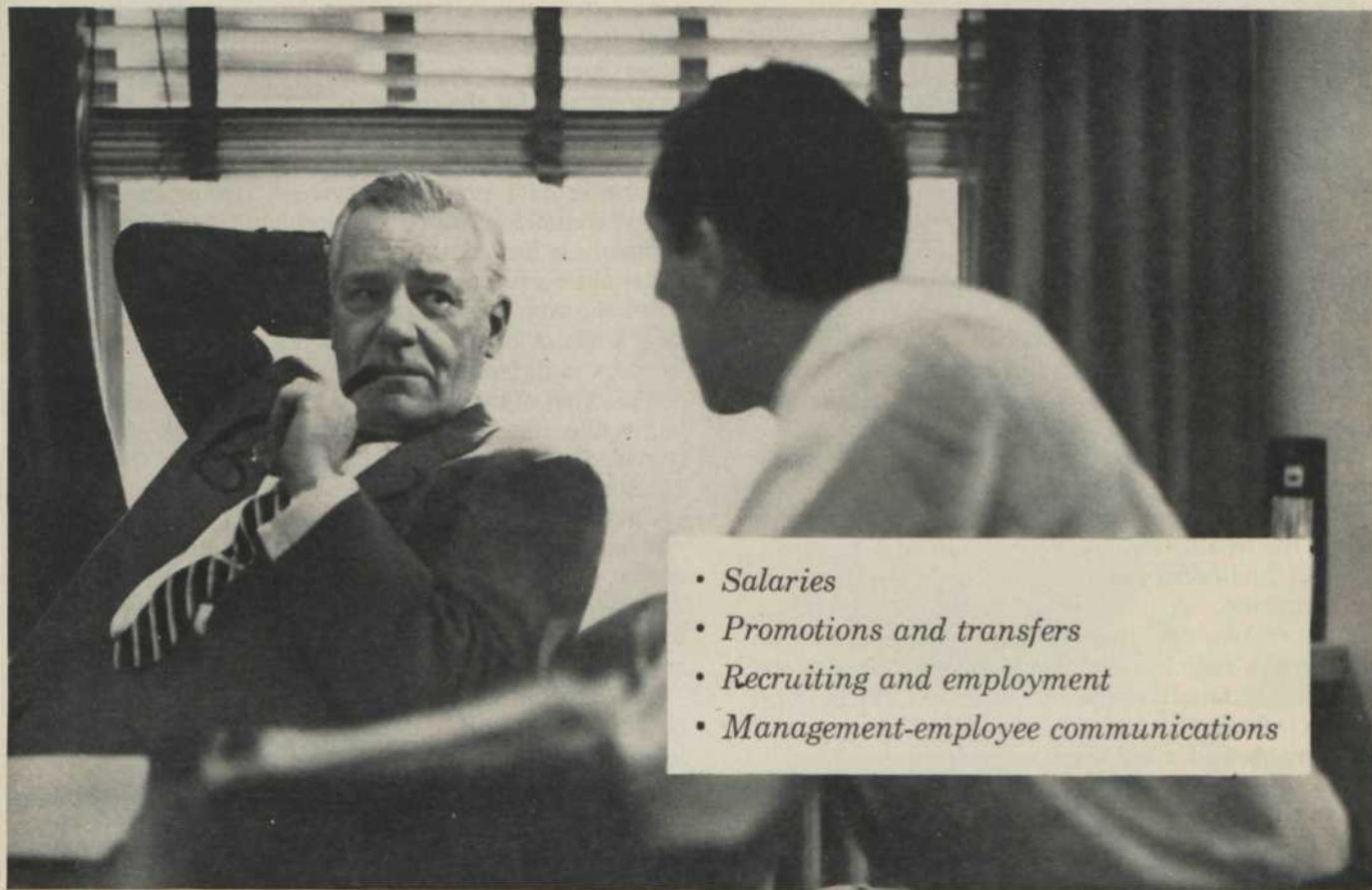
Don't overemphasize your authority.

Don't take over to the extent of getting involved in doing all the detail work yourself—let the personnel concerned get into the act.

Above all—

Don't belittle, blame or castigate either the people or the unit involved in the trouble.

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lem and the causes are definitely attacked. A workable and practicable solution is developed.

The proposed solution is acceptable.

It is well timed.

It is integrated, to the extent possible, with other allied developments.

The completed task leads not only to correction of the situation but also to sustained good relationships and cooperation among the managers concerned. Having done this, the effective action then concerns itself with how to get the operation, system or procedure back on the track or on a new and better track. A proposed solution is carefully developed, taking into account all factors—objectives, facilities, manpower, relationships, time, economy and other considerations.

The solution is prepared in two segments: first, it is explained in terms of the important management principles involved; second, it gets into details and specifics.

The real test is its potential workability and practicability.

Presenting the proposed solution may call for strategy by the trouble-shooter. Sending up a trial balloon, once the preliminary solution has been developed, is one technique.

This enables the trouble-shooter to capitalize on constructive criticism and the views and ideas of the people most familiar with the situation, fill in gaps, modify certain points or features which are still questionable and avoid possible booby traps.

The more formal presentation is a combination of effective oral, visual and written techniques. The audience to whom it is directed involves primarily the executive who has authorized the action and, of course, the manager or supervisor in the work unit most directly affected and other managers who may be involved in the chain reaction.

The presentation must be well timed. It usually will be scheduled at the discretion of the executive who authorized and is monitoring the mission. To the

extent possible, however, and without impairing relationships, the trouble-shooter presses for an early presentation date.

The installation, too, must be well timed, taking into consideration peaks and valleys in the workload, seasonal factors or other influences. To the extent that the proposed solution can be integrated with other current or pending developments, the gain is even greater for the company.

For example, correcting a statistics and reports problem at the time the company is moving into an electronic data processing system; revamping a job analysis and job evaluation problem at the time the company is formulating a program for the utilization of its older workers; altering the procurement system when the company happens to be planning a shift to new kinds of raw materials for its products and new vendors in different sections.

This kind of integration and synchronization should be in the mind of the resourceful trouble-shooter, provided he is informed of what goes on in the way of such company objectives and planning.

Finally, trouble-shooting must not create more problems than it solves. It demands understanding, at the outset, that the troublesome situation is adversely affecting the interests and welfare of the company as a whole, even though the situation itself appears to be entirely local.

The trouble-shooter is there as an intermediary because of his skill in diagnosis of management problems. Only in this capacity is he a representative of upper management. He is not an emissary of some spy system. If management takes any personnel action because of poor performance in getting into this hole in the first place, the trouble-shooter is not a party to it.

The mark of trouble-shooting well done is the quality of sustained good relationships and cooperation afterward in getting on with the show.

Implications

Behind every successfully completed trouble-shooting assignment there is more than just meeting a schedule, achieving work simplification or a cost reduction.

More important, there is the clear demonstration of the values which the company places on the important elements of time, energy, ideas, teamwork, money and morale in probing into problem situations and coming up with solutions.

Behind every successful trouble-shooting action is a man with insight, perspective and a capacity to diagnose a situation and to gain acceptance of his proposed solution.

What we have here, then, is a demonstration of enlarged potential for professional management, both for the trouble-shooter and for the company as a whole. This enlarged potential should be exploited and tapped as fully as possible.

—NATHANIEL STEWART

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Delight Kiddies—Grown-Ups, Too!

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RECORD PROFITS

continued from page 43

now, as shown by analysis of profit data collected by the government for manufacturing companies.

For example:

All manufacturing corporations in early 1957 had to sell \$19 worth of goods to have \$1 of profit. In 1958 they had to sell \$28 worth of goods for each \$1 of profit. Now the figure is \$21.

Though the same general pattern is shown, there is a difference between durable goods manufacturing and nondurable goods manufacturing. For durable goods, the figures show \$19 of sales for each \$1 profit in 1957. It rose to \$33 and is now down to \$21. For nondurable goods

the figure went from \$20 to \$27 and back to \$21.

These figures, although expressed in terms of dollars of sales for each dollar of profit, should be regarded as index figures. They fail to show variations in prices. However, any company official can examine the data for his industry and, by comparing them with his own company's data, determine how he is doing in relation to others in his line.

For the manufacture of furniture and fixtures, the sales dollar index rose from \$44 to \$144 and is back at \$50. This means that the profitability of all companies manufacturing furniture and fixtures, according to these data, is greatly improved over last year but the profitability level of 1957 is still to be reached.

Dividend payments, over the long

How profits look after taxes

Indications point to a record year for profits. As this chart shows, however, profits after taxes have been paid will not rise greatly above previous good years. Compensation of employees, meanwhile, has soared—from \$140.8 billion in 1949 to a probable \$275 billion now.



*Estimated.

it's
a
tall
story . . .
it
begins
in san francisco
in
1913
with
women's
fashions
and
a store
with
a new
idea
(for that
day
and age)
which was:

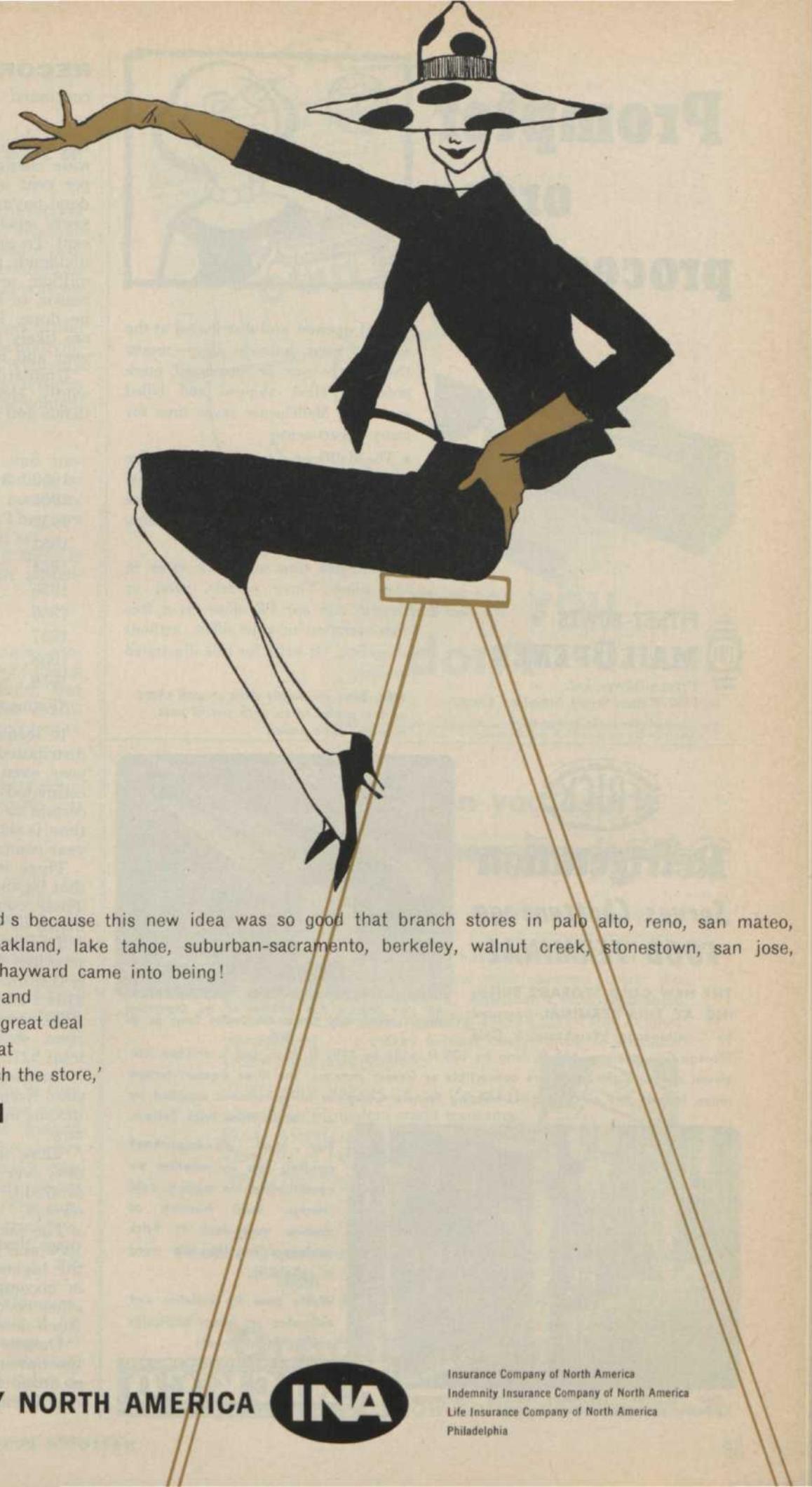
'we
will
have
young-
looking,
fun,
sophisticated,
wonderful
fashions
for all
women'
(not just
the rich
ones)

here the story expands because this new idea was so good that branch stores in palo alto, reno, san mateo, downtown-sacramento, oakland, lake tahoe, suburban-sacramento, berkeley, walnut creek, stonestown, san jose, modesto, las vegas and hayward came into being!

now all of these fashions and
all of these stores take a great deal
of looking after; so, so that
all of its people can 'watch the store,'

JOSEPH MAGNIN

has given
an agent of INA
the job of seeing that
this tall (but true!)
tale is never anything
but a happy
and endless one!
why don't you?



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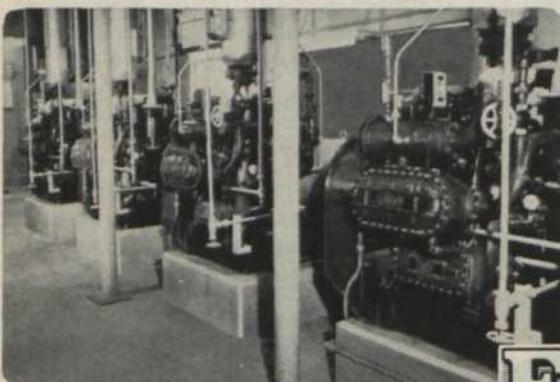
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RECORD PROFITS

continued

run, remain relatively stable despite wide changes in total profits. As a per cent of national income, dividend payments for the past several years equal approximately 3.4 per cent. To equal that per cent in 1959, dividends must be boosted by \$600 million, or 4.8 per cent. There is reason to believe this can and will be done. Dividend payments thus are likely to reach \$13 billion this year and could be higher.

Undistributed profits fluctuate wildly. Here is the record for dividends and retained earnings:

	Dividends	Undistributed profits
1950	\$ 9.2 billion	\$13.6 billion
1951	9.0	10.7
1952	9.0	8.3
1953	9.2	8.9
1954	9.8	7.0
1955	11.2	11.8
1956	12.1	11.3
1957	12.5	9.7
1958	12.4	6.5
1959	*13.0	*11.0

*Estimated

It seems worth noting that undistributed profits for the current year, even if they fail to reach the estimated \$11 billion, are almost certain to rise a greater proportion than is shown by any other year-to-year comparison.

There is, of course, no certainty that business can perform this well. These constitute today's best estimates of what is happening.

The profitability of business enterprises for employes, meanwhile, is continuing at a high level. From \$154.2 billion paid to employes in 1950, compensation of employes has risen steadily and probably will total \$275 billion or more this year.

Compensation of employes has risen from 63.7 per cent of national income in 1950 to about 70 per cent now.

Thus, it appears clear that business over the long run is far more profitable for employes than for owners.

The fact that profits will rise in 1959 and probably again in 1960 to the highest dollar level in history is accompanied by the fact that other economic indicators also will reach new peaks.

Despite high levels for earnings, the owners of business will receive no unfair share of the boom America now is experiencing.

END

MANAGERS

continued from page 41

spective and expectation of what long-range compensation might be.

5. Benefits

A variety of attitudes are related to this morale dimension: reaction to health, comfort and welfare programs; physical working conditions and other employee-centered policies or pressures.

All of them are reflections of the company's concern for the individual employee and how the company shows this concern by the provisions it makes for its executive personnel.

6. Development

The adequacy, extent and mechanics for executive training or development within the company also help shape morale. They are evidenced by remarks such as:

"The company sees to it there is adequate training in each assignment."

7. Job tenure

Executives are not much concerned with the possibility of losing the positions they now hold. But they are anxious about the conditions on which long-term job tenure depends.

Item:

"The higher you go in this organization, the less job security you have."

8. Personal dignity

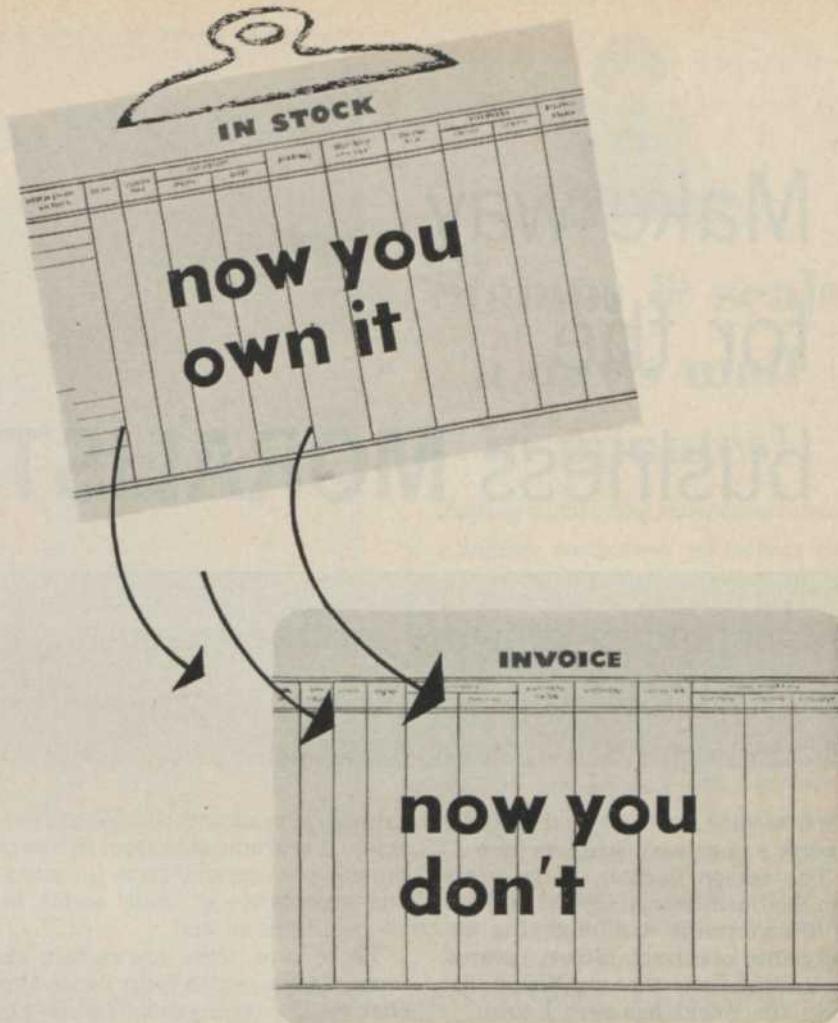
A concern for what could be called humanistic values makes up this element in executive morale. It deals with the manner in which the company expresses its awareness of and recognizes the personal dignity and worth of executive personnel and how it recognizes the manager's personal needs and problems.

9. Job progress

This dimension of morale is concerned with the position the company is believed to take toward executive job progress and transfers and the total effect company attitudes and transfers themselves have on the executive's career. The conditions surrounding job transfers, rather than advancement itself, seem important.

END

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Demand is growing for the executive
who knows the consequences of power

THE MORALIST will undoubtedly emerge as our next business hero.

The reason is clear. Sixty years ago the businessman looked forward to transforming the emerging society into one huge factory, geared up to produce the wealthiest society the world has ever known.

This has been accomplished, and the power-seeking businessman has probably been chiefly responsible. Now, however, the job is to transform the huge factory into a supremely moral and human community in which the highest dignity and respect is available to the lowest subordinate.

Business, therefore, is now going

through a profound change in character. It is graduating from the mere pursuit of economic ends to conscious acceptance of wide social responsibilities as well.

To be sure, there are certain external forces which help cause this change. The businessman has had to cope with the regulating demands of a welfare state on the one hand, and economic pressures of a strong union movement on the other. The seeming proclivity of the large company to grow still larger has urged him to focus less attention upon his competition and more upon business conditions and the health of the economy and society. He must

constantly feel the pulse of public opinion and be wary of alienation. Wherever he goes today he is accompanied by a host of survey-makers, social engineers, public opinion analysts, and human relations experts. In short, he is becoming more sensitive to his environment.

The modern corporation, owned by thousands of stockholders, employing thousands of people, and serving millions of customers, is no longer simply a private institution. The old distinction between private and public interests has become dim, and may be destined to disappear. An era of high morality is about to begin.

This change in character means that, as business serves more the nonpecuniary goals, the qualifications of executive fitness become nonpecuniary too. Increasingly the executive must show his moral credentials for access to the power with which he has become trusted.

Even then his power is kept in check by the many pressures arising from this moral character of business enterprise. Nevertheless, he still has tremendous discretion and latitude. A moral character is required to wield this power considerably.

Research on the moral problem in modern corporate life shows that the typical executive today often says that he refrains from using the full power available to him. He often reports that, in public, he feels a compulsion to deny that he has the power that many ascribe to

New challenge to U. S. management
is to make highest dignity and
respect available to lowest subordinate





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BUSINESS MORALIST

continued

him. In spite of such disclaimers, however, we find in some executives we have interviewed and studied a strong love for power and its advantages. This kind of executive we call the power-seeker.

Other executives have a distaste, if not a real fear, of what the exercise of power might do to the corporation as well as to the personality of the individual. This executive who must use power and yet who fears its consequences is an excellent example of what has resulted from the changed character of business. We call this type of executive "the moralist."

It should not be interpreted that power-seeking executives are immoral. All people are both moral and power-seeking to some extent. Furthermore, the executive who is solely power-seeking typically believes that the pursuit of power is the highest virtue. The power-seeker has had more moral support in the past than today. Not long ago his philosophy was more in harmony with general ethics. To be sure, this harmony was not perfect, but in a society which emphasized the virtues of hard work, frugality, asceticism and individual responsibility, the businessman could feel free to concentrate on profit-making, competition, and organizational efficiency as he provided the tremendous abundance of material wealth of which we are so aware today.

This harmony between the power-seeker's philosophy and his ethics

was based in part upon a broad spiritual heritage. From the Bible he acquired the Ten Commandments, of which the first four reminded him of his personal relationship to his God and the last six admonished him among other things not to kill, steal, or lie in his pursuit of private gain. From the medieval church he borrowed the efficient hierarchical system with its singularity of purpose and centralized leadership.

From outside of religion proper he relied heavily upon such things as the spirit of duty and loyalty between lord and serf handed down from feudalism. Utilitarian economic theory assured him that the greatest happiness for the greatest number was best assured if each was allowed to pursue freely his own self-defined interests.

Adam Smith's "invisible hand" gave an ethical sanction to the impersonal relationship that was rapidly growing between the businessman and his workers and community. Mr. Smith described the "invisible hand" as an automatic governor operating in society to permit the pursuit of self-interest to inure to the benefit of the greatest number. This hand served well to relieve the businessman of any further responsibility on his part.

Then, through representative government, was created the limited liability law that recognized the corporation as a legal person, having rights equal in many ways to those of a private citizen. But critics viewed the corporation as a legal instrument through which the businessman could pursue self-interest without being held personally re-

THE AUTHOR, Prof. Eugene E. Jennings of Michigan State University, is a social psychologist and business consultant. Since 1956 he has been working to pinpoint the values which motivate businessmen.

Professor Jennings and his associates have intensively inquired into the behavior and value judgments of a selected group of executives of small, medium and large firms. Both written and personal interviews, the latter lasting at times two days, have been used.

Most recently, the researchers have utilized an "Executive Practices Inventory" designed to reveal the basic typology of managers. This instrument, according to Professor Jennings, has helped to single out such types as the power-seeker, the cynic, the moralist-at-large, and the close-quarter moralist—managerial types which he discusses here.

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BUSINESS MORALIST

continued

sponsible. This was probably unfair, but it is a fact that the concept of the corporation became an additional moral support for the impersonalization of human relations in business.

The final touch was given by the Darwinian theory of struggle for existence and survival of the fittest. Businessmen are not commonly articulate social philosophers, but, when they realize that religion, church practice, economic theory, representative law, and nature herself supported their right to moral respectability, they may be forgiven for accepting might as morally right.

Today, however, this moral support has been knocked out from under the businessman. Consequently, many executives are seeking new precepts with which to replace the old. These people, whom we have classified by the research term "moralists," think that reconstructing a moral basis for the business institution is the most important problem that the businessman faces. The moralist feels and speaks like a man with a mission.

A more exacting report of our research shows that the executive whom we have called the moralist typically believes that the business executive should be actuated by the motive of serving society rather than maximizing profit. Profits have become a necessary means rather than the ultimate end. Many executives show up in our survey as answering affirmatively to this new duty, but in intensive interviewing "the moralist" usually reveals a deep preoccupation with this subject and seems quite well versed in it. In short, he sees himself as a steward, and feels justified in using and retaining his power only if this best serves the interests of society.

Some of his outstanding character traits include an imbued respect for the dignity and essential worth of all men. He shows a spirit of compassion in his human relationships and believes in the doctrine that equal opportunity should be accorded all persons. He believes particularly that young people should be given adequate opportunity to develop professionally.

What usually makes the moralist stand out from other executives is his accent on personal development. He tries to see and develop in the individual more than what is presented or needed by him at the office. In spite of this interest in

people, one type, whom we call the moralist-at-large, may not necessarily promote a friendly climate, although he makes an effort to establish face-to-face relationships. This is to say, he may be quite cool and aloof from people even though he tries to meet with them on a face-to-face basis.

Time and time again we find this type of moralist to be something less than extroverted and warm. One reason may be that he sees his mission to be that of helping to reconstruct at large a moral basis for the business world. He has the public predominantly in mind; which means that he goes in for public speeches, the writing of articles, and attendance at conferences on the subject of morals.

There is, on the other hand, the "close-quarter" kind of moralist who usually lives and serves his moral responsibilities within the immediate orbit of his daily activities. This type of executive is more likely to establish a friendly and unpressured work climate. Both the moralist-at-large and the close-quarter moralist, however, are dedicated in their respective ways to restructuring the moral character of the business world.

The greatest fear of either is focused in his suspicion of power in whatever guise it appears. He is likely to answer "yes" to the maxim, "power corrupts, absolute power corrupts absolutely." One reason is that he fears its effect on the personalities of those who wield it and those subject to it. Another is that he regards power as a source of injustice. More often he believes, however, that the danger is not in power, but in its abuse.

This means that he weighs a planned action in terms of the consequences. Will it serve the common good? Typically, he fears that he may not know what end is common and whether it is necessarily "good" merely because it is common. The moralist-at-large has such a broad view of his mission that he suffers more from this abstraction. The close-quarter moralist has a more concrete frame of reference; that is, the welfare of his immediate group, but his problem is that oftentimes what is good becomes a matter of majority opinion. He does not believe the majority is always right, but his fear of power sometimes prevents his imposing a more moral view.

Notable among all moralists is the attempt to broaden the base of making policy decisions. The reason is the belief that the various

interest groups should have a voice in matters affecting them. This is a matter of respect for the dignity of all men and their welfare. The problem is always, "How far should the base be broadened?" Most moralists usually reply that they believe management should consult and seek advice, but should make the decision. Some few, however, rebuke this technique as being neopaternalism. Some of the successful moralists have tried to seek and use advice in such a manner that, in the long run, justice is rendered to the claimants of the various interests involved in modern business. This technique eliminates the necessity of always being fair in the short run and with regard to every decision.

In all these matters the moralist must feel his way because, except for generalities, business has no specific and practical guidance on how to act morally today. The common complaint of every moralist is that codes of good conduct are so watered down as to offend no one and so general as to be useless to almost everyone. Consequently, standards of conduct are not clear.

This means that each firm must find its own moral equilibrium and, therefore, the moral climate will vary from firm to firm. This has forced each executive to examine his own concept of moral conduct. Consequently, there is considerable variation here, too. Some executives diligently uphold honesty; others, loyalty; others, service. Still others try to value highly a multiple set of moral precepts. Some believe in being "thy brother's keeper" to those they know; others to those who need help. But all are perplexed as to exactly who is their "brother."

Moral principles originally developed to apply to relationships among human beings as individuals are difficult to apply to relationships among groups. Furthermore, what kind of morals should a corporation have?

We find that the moralist often asks whether the corporation, besides being a legal "person," is also a moral "person."

"Is the business executive serving ultimately God or mammon?" This, indeed is the fundamental question asked by the moralist of today.

If his problem is to make concrete an abstract set of moral preachers, his next major problem is to guard against certain tendencies that usually tempt the man of high morality in any institution.

One of these is self-righteousness, which is most often found in the

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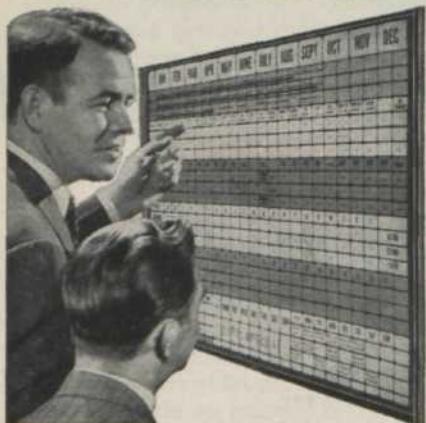
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BUSINESS MORALIST

continued

executive's attempt to take personal credit for the moral progress made in his orbit of influence and to blame others when acts he considers immoral occur.

A second tendency the moralist has to fight if he wants to succeed is that of perfectionism—to give the public or his group the impression that he has all the answers to the moral problems.

Or he oftentimes has such a high standard of morality that he never attains his goal. This tendency sometimes breeds cynicism. This means the negation of morality, since it is based upon a basic distrust of man. Cynicism comes because of innumerable failures at treating and accepting people as basically unselfish and trustful. Sometimes the executive fails in his attempt to uplift the morality of his people because he himself lacks the necessary skills or personality. Others report failure because of a preponderance of self-interest within the organization and a long-established tradition that supports this drive.

But of all the problems the true moralist faces today, there is one that he feels directly related to his success in business. He is often blind to the true identity of the power-seeker. The reason is that one must be a little cynical to see the power-seeker, because the power-seeker never makes apparent his need and drive for power. He always appears to work for the common good.

He has as his apparent mission the moralist's, but the personal success that it provides him is his private justification for his hard work and devotion.

Because of a greater flexibility in dealing with people, the power-seeker can better conspire and manipulate. He has a richer repertoire of devices and levers with which to maneuver himself into high office and maintain himself there. He, therefore, has all the advantages of a moralist with few of the latter's handicaps.

This has caused cynics to announce that, under every banner raised high today to the cause of morality in business, there is probably a power-seeker.

Research shows that chances are even that one will find a true moralist, and the odds are growing better all the time.

—EUGENE E. JENNINGS

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Executive Trends



New look at union political power

Do the nation's labor unions really have the down-the-line political influence with their members that some analysts have claimed?

Prof. Daniel Katz of the University of Michigan's psychology department says studies of union voting in Detroit indicate that two out of every five organized workers believe unions should not set political standards for their members.

While only a preliminary analysis has been made of the Detroit data, Prof. Katz says the United Auto Workers were more likely to feel their union should be in politics and were more likely to vote than were the rest of the union members interviewed. Evidence indicates that recent southern migrants to northern jobs tend to oppose union involvement in politics.

► Even those union members who feel their organization should take a stand on political issues are not in unanimous agreement with the union's position, the data indicate. What Michigan's researchers are learning about union members and political action should be of practical value to businessmen currently pushing for greater business participation in politics. The most recent move in this direction is that of the Society for the Advancement of Management, which this fall will launch a series of around-the-country workshops on ways business can be more effective in politics.

Rust on the iron hand?

The businessman who rules his subordinates with an iron hand and refuses to delegate authority—regarding himself as holding the combined portfolios of chief engineer, head salesman, general production manager, personnel man and timekeeper as well as the proprietor—is on the wrong track.

This is one conclusion reached in a world-wide management study by Dr. Frederick H. Harbison, director of Princeton University's Industrial Relations Section, and Dr. Charles A. Myers, director of the Industrial Relations Section of the Massachusetts Institute of Technology.

"This kind of manager cultivates the art of making himself indispensable and, in so doing, he creates an environment which leads others to make themselves indispensable also," the two professors say. "The one-man ruler delegates too little, does too much himself, and thus has little time for effective organization-building or for creative thinking.

► "As a consequence," say Professors Harbison and Myers, "this type of management is likely to be defensive, enervated, and static. It breathes only

at the top, and when the top disappears, the organization either collapses or must be completely rebuilt from the bottom." (For more on the Princeton-MIT conclusions, see page 54.)

Know-how on the Nile

Within a very short time, Egypt should be able to provide much of the technical and organizational talent required for the industrialization of its neighboring Arab nations.

The world-wide management study by Drs. Harbison and Myers (see above) has pointed up the fact that one of Egypt's greatest current assets is a broadly educated managerial elite.

Egyptians are now managing the Suez Canal, oil-producing fields and petroleum refineries in their own country, and are exporting high-talent manpower to the other countries of the United Arab Republic. Dr. Harbison and Dr. Myers predict:

► "It should come as no surprise to the West, and certainly not to the Nasser regime, if they one day were to assume the managerial control of oil production and exploration in the entire area. For this reason, the emerging Egyptian pattern of professional industrial management is worth close scrutiny."

Demand for executives continues high

Industry is avidly searching for bright executives in the areas of personnel and general administration. That's shown by the latest Executrend, a barometer of management openings maintained by Heidrick & Struggles, Chicago-based executive recruiting firm.

Opportunities in the highest-level positions—\$25,000 and more—continue strong. These include presidents, executive vice presidents, and general managers. Personnel managers, labor relations specialists and training directors are other groups in high demand.

► In the aircraft industry, according to the barometer, electronics-minded men who can operate in terms of both civilian and military markets are now being sought. The nationwide survey also shows that companies are searching for increasing numbers of men who are at home in the total marketing concept.

What's your reading on the Machiavelli meter?

Social scientists at Michigan State University are cutting deep into the ligaments of executive character with an unusual scalpel called the "Executive Practices Inventory."

The Inventory consists of 85 statements designed for true or false (or "mostly true," "mostly false") answering by executives. Included are such statements as these: "Most people enjoy the challenge of trying to outmaneuver others," "Friendship tends to blind one's critical faculties," and "Self-interest is the basis of human nature."

Prof. Eugene E. Jennings, principal creator of the Inventory, (see his article on page 90), has administered the attitude-probing experiment to numerous top, middle and lower management personnel. Majority reactions, he says, suggest that the average businessman is suspicious and distrustful of his fellows.

► Reaction to the Inventory statements shows majority agreement to such propositions as these: That executives should not become too committed to a subordinate as a friend, that executives should never allow men they have offended to assume positions of authority, and that executives should not allow free participation of subordinates in personally crucial decisions.

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Law would check future growth

Five perils seen in proposals for prenotification of mergers

BUSINESS IS THREATENED with federal legislation that could discourage efficiency, improvements and expansion.

The legislative ideas are embodied in bills that could get quick consideration in the next session of Congress. The bills would require businesses to give the government advance notice of proposed mergers or acquisitions. Companies would have to tell the government about plans for buying or disposing of assets, then wait 60 days before going through with such deals. There are several more subtle dangers, too.

Measures to do this are authored by Rep. Emanuel Celler (D., N.Y.) and Senators Estes Kefauver (D., Tenn.) and Joseph C. O'Mahoney (D., Wyo.).

Right to grow is threatened

The general provisions of these bills are almost identical: All corporations not specifically exempted must notify the Attorney General and either the Federal Trade Commission or, if in a regulated industry, their regulating agency, of any proposed mergers, acquisitions of other corporations, or certain proposed purchases of business assets.

If the proposed acquisition involves "combined capital, surplus, and undistributed profits exceeding a book value of \$10 million" final consummation must be delayed at least 60 days after notification. The notice itself must disclose certain specified information. The firm must supply "such additional relevant information . . . as may be requested" within 25 days after the agency receives the notice. The bills also would give the Federal Trade Commission power—comparable to that of the Department of Justice—to seek injunctions against proposed mergers and acquisitions which are suspected of violating the law.

Section 7 of the Clayton Act already prohibits corporate mergers and acquisitions "where in any line

of commerce in any section of the country the effect of such acquisition may be substantially to lessen competition or to tend to create a monopoly." It was originally justified as a means of preserving active competition in our economy, protecting small business and reducing tendencies toward economic concentration.

The proposed laws would not change this purpose. Nothing would be changed, in the government's view, except the ease with which the enforcement agencies discover an impending acquisition, the amount of information given them before its consummation and the fact that more firms presumably would know that "big brother is watching you."

Giving the agencies this power, however, carries with it five potential dangers:

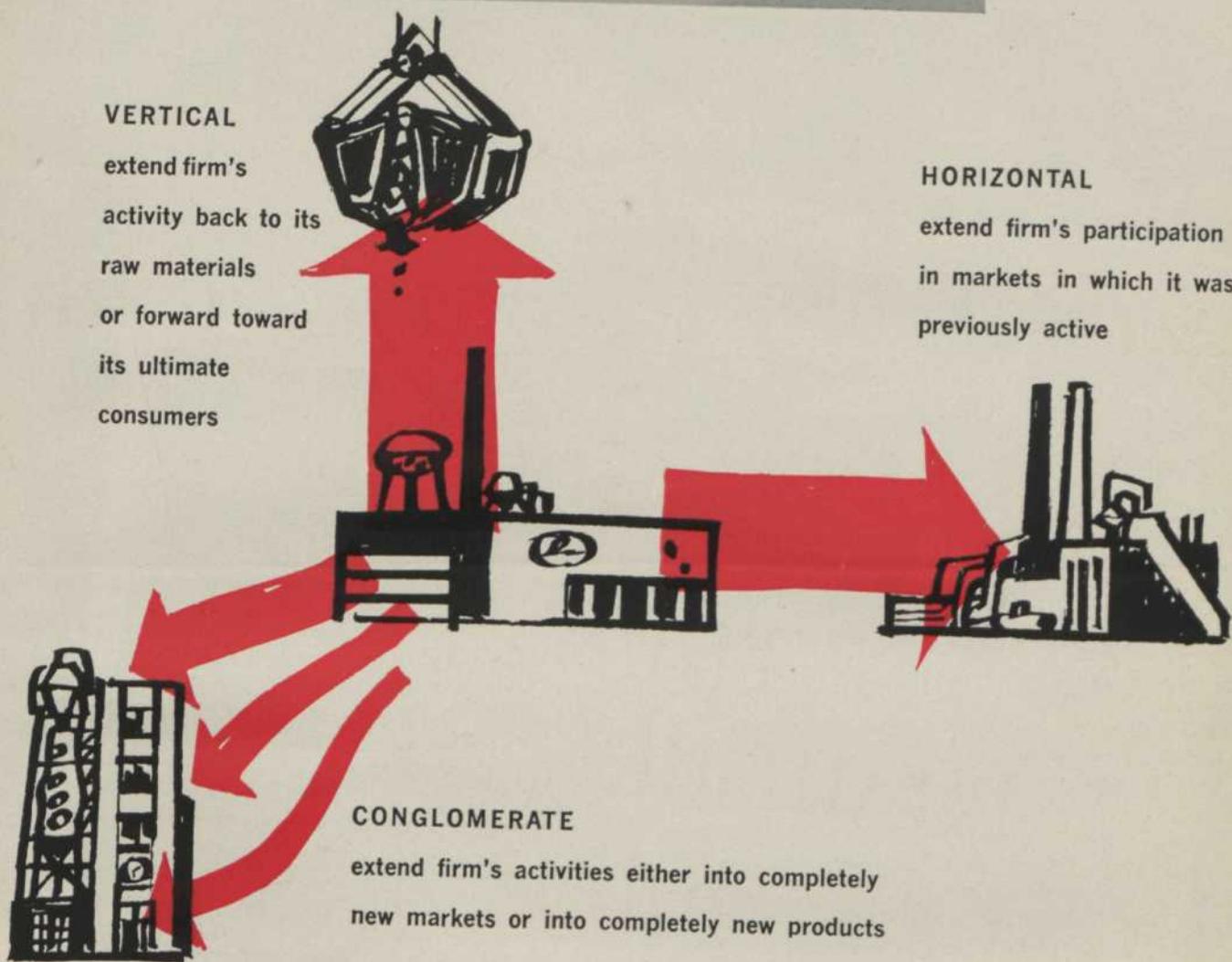
- Dangers inherent in the required submission of information.
- Dangers of premature publicity.
- Dangers from the use of new theories of the law.
- Dangers of increased business rigidity.
- Dangers of anticompetitive side effects.

The submission of information

The proposed bills would require corporations proposing to merge or to acquire to "set forth the names and addresses, nature of business, quantity and value of products or services sold, transferred, or distributed, classified by specific type, nature and kind, total assets, net sales, location of plants and trading areas in which each product or service is sold, copy of last annual report and balance sheet" as well as "such additional relevant information" as may be requested.

"Estimates," unfortunately, mean different things to different people, so that figures which the businessman considers a vague indication of market condi-

Acquisitions are of three types:



tions may be and have been treated as precise by a government attorney. Several companies have learned this lesson the hard and expensive way.

But these bills pose an even greater threat to the ultimate business climate. By virtue of this requirement, the enforcement agencies eventually will build up vast files of industry information containing a mishmash of guesses, misunderstandings, hearsay, and (perhaps) valid statistics. Every pending merger or acquisition will be subject to analyses in terms of these so-called market facts.

The danger is increased by the widespread differences between the language of businessmen and of lawyers and economists. Spokesmen for business often think they are demonstrating the strength of competition when in fact they are cutting their own collective throats. Many lawyers and economists hold that true competition can only manifest itself through price. To these men, advertising, promotions, deals, product improvements, innovations, and all the other nonprice forms of competition—so important to businessmen—prove both the relative absence of competi-

tion and widespread business efforts to suppress what little competition may remain.

Premature publicity

If the owners of any going enterprise wish to sell, it is usually a matter of dollars-and-cents concern to them that this not become common knowledge, since the resulting uncertainties are likely to demoralize their employes, suppliers, and customers. If too much time elapses while the business is being peddled about in trade gossip, its initial going-enterprise value may evaporate. Knowing this, the owners of a business may go to considerable effort and expense to conceal their intention to sell. The pre-merger notification bills properly recognize this and provide for the punishment of government personnel who break confidence, but this is hardly enough.

The danger of premature publicity is generated by the inevitable increase in the number of opportunities for leaks which result either from bringing another party into a secret or from prolonging the period of secrecy. Too

(continued on page 104)

THE PRACTICE OF FREEDOM



Progress Report of the Chamber of Commerce of the United States
Washington, D.C. 1953

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continued

many people come to know; too many letters have to be written by too many secretaries; too many clerks have to compile files; and, after a decision is finally reached, it cannot be acted upon for 60 days.

Finally, while the government personnel directly involved in studying a given merger might be aware of the needs for secrecy, others who also have access to the same information might divulge it inadvertently. The availability of such industry information will lead to its use in connection with other matters, further increasing the chance of leakage. Accounting to Congress or to the public for agency activities provides still another channel through which enough information may become public to work serious hardships on a pending sale.

Impact on enforcement theory

Regulatory laws are generally phrased in broad language, with

their ultimate details left to the enforcement agencies and/or to the courts. This means that, while the agency personnel have their ideas of a law's meaning, those theories are not binding until they have been tested.

But, in the nine years since Section 7 of the Clayton Act was last amended, little has been done to clarify its meaning. The Department of Justice has challenged 19 mergers and acquisitions and the Federal Trade Commission has issued 29 complaints. Only one of these 48 cases has been finally decided by any court.

Meanwhile, the agencies naturally lean toward interpretations of the law which make their own work easiest and will tend to adopt what lawyers call *per se* reasoning. That is, they try to establish a simple rule of thumb that something which is factually present or absent determines the legality or illegality of an action.

Mergers and acquisitions are of three broad types:

Horizontal acquisitions increase a

firm's participation in the same markets in which it was previously active. The so-called Pillsbury case was the first such merger challenged under amended Section 7.

Vertical acquisitions extend the firm's activity back toward its raw materials or forward toward its ultimate consumers in terms of its customary products or services.

Conglomerate acquisitions extend the firm's activities either into completely new markets for its customary products or into completely new products, leading to broader diversification. The so-called Foremost Dairy case was the first challenge of this type of merger under the re-written law.

With respect to acquisitions involving two or more firms in a roughly common market situation, the Commission's staff has stated its position on several occasions. In the Pillsbury case, the staff said: "In cases involving horizontal acquisitions a *prima facie* case is made by proof that a leading factor in the relevant market acquired a substantial factor in that market and that such proof gives rise to a reasonable inference that competition may be substantially lessened."

For cases which involve two or more firms in diverse market situations, the Commission's attorneys have argued in the Foremost case that Section 7 is violated whenever any diversification is accomplished by merger.

If these interpretations are allowed to stand, Section 7 will say, in effect, that any horizontal merger or acquisition involving large or well known firms and every conglomerate merger or acquisition is illegal.

It is hoped that the courts will establish clear guides to businessmen and their counsel. But enactment of the current pre-merger notification bills would create new precedents.

Within the Federal Trade Commission, for example, staff personnel will advise on proposed acquisitions and will be in a position to discourage those which they feel violate the law. Thus, intra-agency precedents, established and applied without benefit of judicial review, will increasingly tend to govern Section 7 matters.

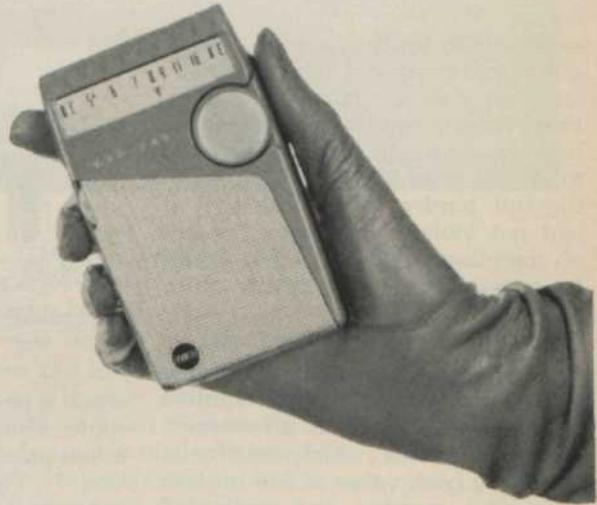
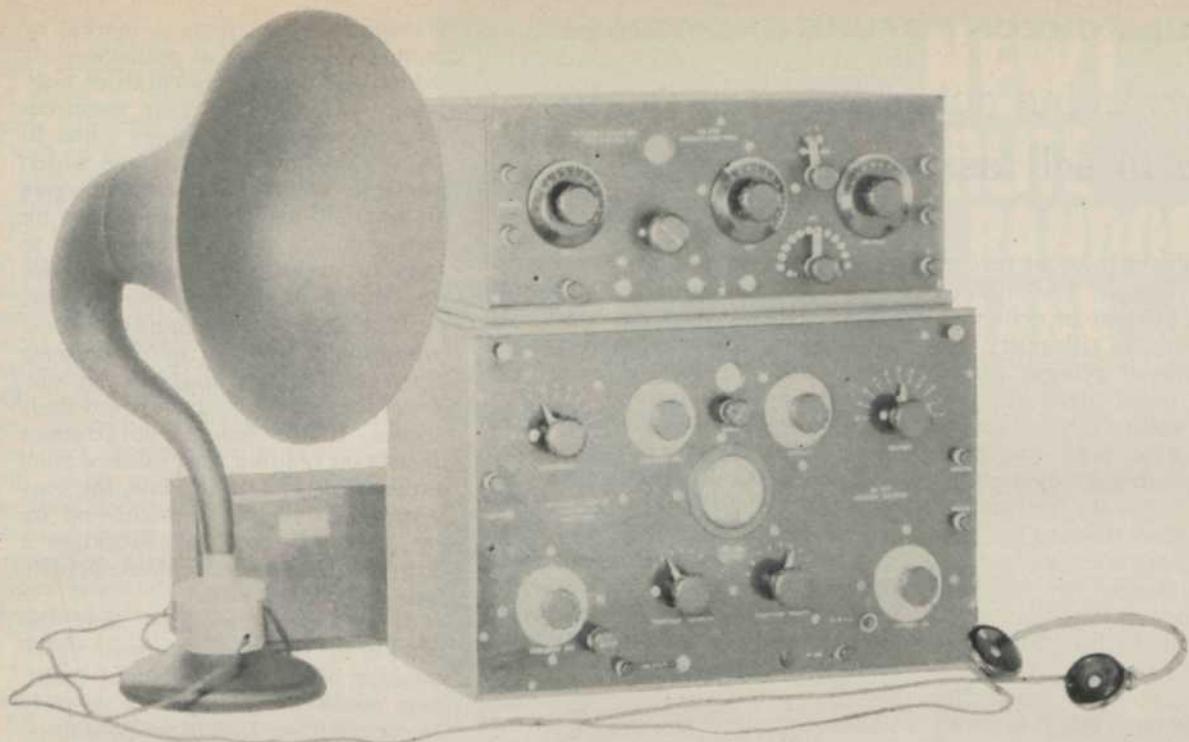
Enactment of these bills would, therefore, signal a subtle shift away from the courts as interpreters of the law. The government's actions will have provided precedents for the government, but most of these precedents will never be publicized, made available for the guidance of

Another threat to growth

Besides pending legislation to make companies tell Uncle Sam about proposed mergers, a federal agency also has plans for getting earlier information about merger or expansion plans.

The Securities and Exchange Commission wants to change its monthly reporting form for companies with stock listed on national exchanges to get this information. The amendment would require these companies to report acquisition or disposition of assets—if they are 10 per cent or more of the company's total assets—as soon as a deal is closed. So information on a merger would be reported and could be disclosed to the public as soon as a contract is signed even though the assets have not yet been transferred.

Businesses are complaining that the proposed change would make public plans that should be confidential so as not to disrupt customer, employer, stockholder and distributor relationships. Too early leaks of such deals could aid competitors and invite stock market speculation that could interfere with such private transfers.



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A firm going out of business might have to sell assets at scrap value

business, or subject to court review. Still another danger traces back to the agency interest in achieving *per se* standards of illegality. In theory, the judicial process places the burden of proof upon the government. However, the Federal Trade Commission seems to have displayed an almost systematic tendency to reverse its hearing examiners when they dismiss for lack of proof. This seems to imply that, once the Commission has issued a complaint, every respondent company will be put to the costly and difficult task of proving that the law was not violated, even when the FTC's attorneys have failed to prove their allegations.

If the pending notification bills become law, the Commission could easily drift toward a new threshold of presumptive illegality. The fact that a given merger or acquisition was sufficiently large to require notification might become sufficient to saddle the defendant firm with the full burden of proving that it had not violated the law. The act of compliance with the law would be tantamount to admitting guilt.

Impact on structure of industry

The texts of all these pending bills require notification (unless otherwise exempted) of all mergers and acquisitions which involve a combined book value of \$10 million of capital, surplus, and undivided profits, except that transactions involving considerations of less than \$2 million (\$1 million in the O'Mahoney-Kefauver bill) are exempted. It is hard to say how many corporations are affected by these thresholds, since all mergers and acquisitions by larger corporations might be covered. Conceivably, several thousand enterprises could be required to notify the government of acquisitions of any size. According to tabulations by the Internal Revenue Service, the average United States corporation's capital, surplus, and undivided profits constituted about one third of its total assets, indicating that a firm with assets of around \$30 million—a relatively small firm in many industries—might fall within the mandatory notification group. To the degree that the enforcement

agencies treat notification as presumptive indication of violation, business firms may experience increasing difficulty in growing much above this \$30 million asset level by means of acquisition.

It becomes possible that the government would act to stop growth by acquisition of smaller firms. But growth other than by acquisition would not be affected. In an industry with surplus idle capacity, a dynamic firm might be prevented from acquiring that idle capacity, but it could not be prevented from adding to the surplus by building more.

The social benefits to be derived from such a situation are questionable since those dynamic firms potentially most capable of challenging established leaders could never



The seymours

reach a position of challenge by the route which the leaders may have taken prior to the enactment of Section 7. This would tend to freeze industry leadership into a "grandfather" group of firms which had made their acquisitions earlier, and which could now depend on the government to protect them from serious competition.

Competitive effects

It is obvious that the pending bills, by discouraging growth through acquisition beyond relatively low limits, would increase the economic power of the large firms in each industry. It is also obvious that dynamic managements even in industries with too much capacity would be forced to make unnecessarily large diversions of capital to the creation of unneeded new capacity.

The greatest blow to competition may come, however, through the drying up of our most important source of competitive vigor—the process of business entry and exit.

Freedom of exit from a market or industry implies that managements which see better opportunities elsewhere can transfer their resources to new uses, while others come in to replace them. Anything which prevents consummation of mergers or acquisitions which are sought by the acquired firms forces them to stay in undesirable markets under the threat of ultimate bankruptcy.

This fact will discourage others who might wish to enter because they know that if they do not succeed, they cannot expect to cut their losses. If the federal government insists on holding that sales of such enterprises violate the law, the government conceivably might end up by having to buy or subsidize a firm for which an acceptable private sale could not be made.

It is clear, therefore, that the kind of Section 7 enforcement which passage of these bills might facilitate could involve serious dangers to competition. Before we pass drastic laws to combat concentration, we should learn more about it.

Our present definitions and classifications of industries and products are inadequate. Many absurdities already have resulted from trying to measure concentration with available data. Further, no matter how good our industry definitions may be, they soon become useless if not periodically adjusted to account for continuous changes in technology.

We need better statistics. For many important products, no adequate industry totals exist. For instance, to present its defense to the Federal Trade Commission, Pillsbury had to underwrite an elaborate research project to get market statistics. Regular statistical series are not collected for such everyday commodities as family flour. Moreover, a lamentable lack of uniformity between firms characterizes current reporting to the statistical agencies. Businessmen, trade associations, and the government would profit alike from cooperative efforts toward a more uniform record-keeping and reporting procedure.

We need better analytic and judgmental tools. Current methods of expressing and analyzing concentration statistics are inadequate. To give effect to certain general factors which obviously affect concentration but which have not yet been treated adequately, we should be able to analyze: 1, significant trends in competitive relationships within and between industries; 2, changes in the nature, composition, and behavior of an industry's leadership

group of firms; 3, changes in internal diversification of industries and firms; 4, characteristics of and trends in production for in-firm use as well as production for sale; and, 5, technological changes affecting product and process substitutions.

To reach valid judgments concerning the significance of given levels of concentration, we need new norms. We need to look at the problem of concentration in terms of the institutions and technologies of 1960, not 1890. The old-style tycoon, powerful in a single line or area and geographically protected from many potential competitors, was long ago replaced by the professional manager of a multiline corporation, answerable to a host of owners, negotiating with strong suppliers and labor leaders, and selling to highly sophisticated consumers in markets where competition may materialize from any direction.

All agree that there is a concentration problem—but what is it? Many see the problem as one of dealing with concentrated industries, others as one of properly delineating and adequately measuring concentration. We should have more thorough studies of the economic problems related to industrial concentration. Through these studies, we may conceivably find that much of the antitrust problem, as presently envisioned, has never existed.

More important, we may discover that potentially dangerous extensions of business regulations, such as the pre-merger notification bills, are unnecessary.

—W. HALDER FISHER

For many years the author was an economist with the Federal Trade Commission. He now heads W. Halder Fisher and Associates, economic consultants, in Washington.

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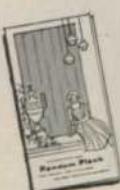
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Both the buying and selling of certain products can, for the communists, be a way of opposing western democracy.

In the past the Russians have never been world traders but today they do business with 70 countries. Mikhail Kuzmin, Deputy Minister for Trade, has predicted Soviet foreign trade will double in seven years.

In the commodity line, Russia wants to sell oil, platinum, chrome, manganese, coal, potash, aluminum, tin, zinc, asbestos, benzene, lumber, flax, graphite, mica, gold, and cellulose. She never offers to sell uranium, but her supplies are extensive, and she has political plans to give atomic power to her friends faster than the U. S. gives it to her friends. Caviar and vodka are also serious items of export. So are furs and crabmeat.

Mr. Khrushchev needs wool and cotton, but is literally a tough customer, as the Soviets may buy cotton from the Egyptians, Sudanese, or Americans, depending upon what political influences seem most im-



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Pete Progress

Speaking for your
local Chamber of Commerce

portant to them at the time. Their purchases of rubber in 1958 were 50 per cent above 1957; this year is heavier and Red China is entering this picture. This has enhanced Russian influence in Southeast Asia, but the trade will fade as soon as they increase synthetic production. If they can discomfort western nations by abruptly dumping or withdrawing from a market, the Russians love it. To them a political gain is a profit although they shun the word profit itself.

Leading congressmen have become concerned that a general atmosphere of sweetness and light will suggest that trading behind the Iron Curtain can be on a business-is-business basis.

"Aluminum is definitely part of their economic cold war," says Sen. Warren Magnuson (D., Wash.). The Soviets have sold aluminum below the going world price. Some feel their policy was calculated to hurt existing ties between western countries.

Oil, a familiar ingredient of business-for-politics, has been sold by Russia with good effect in Israel, Egypt, Sweden, Italy, and other countries. Their oil production is expanding, but so is their own industrial need for it.

They also want to buy petrochemical equipment.

Mr. Khrushchev would also like to buy rolled metals from the U. S. He needs cheap pipelines for gas in cities. He is shopping for various chemicals and chemical equipment and, despite their medical research advances, Russian medical equipment production is far below ours. Russians say their U. S. purchases in these categories might be very big. Former miner Nikita Khrushchev is also hunting mining equipment.

Mr. Khrushchev and President Eisenhower have touched on trade in their many letters, although the Russians were discouraged two years ago and thought Mr. Eisenhower had slammed the door for good.

The Russians are also interested in a few farm products other than cotton.

A few months ago, in their eight-hour conversation, Mr. Khrushchev told Sen. Hubert Humphrey the Russians would even like to buy some wheat.

U. S. officials will wait and see—they remember trying to do business with Hitler—but they agree that normal trade is one of humanity's greatest peacemakers.

—MICHAEL AMRINE

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AFTER STRIKES

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continued for almost a year after the strikes were settled. The afterstrike surge in steel activity probably stimulated this advance mildly. However, the main factors influencing the boom and the succeeding recession appeared to have little or no relationship to the strikes.

When the 1959 steel strike began the economy had recovered fully from the 1957-58 recession and had reached new record levels. Gross national product in the second quarter of 1959 was at the annual rate of \$483.5 billion as compared with \$431 billion at the 1958 low point and \$447.8 billion at the 1957 peak. The Federal Reserve Board Index of Industrial Production had reached a new high level of 155 in June 1959. Personal income, retail sales, and employment have advanced.

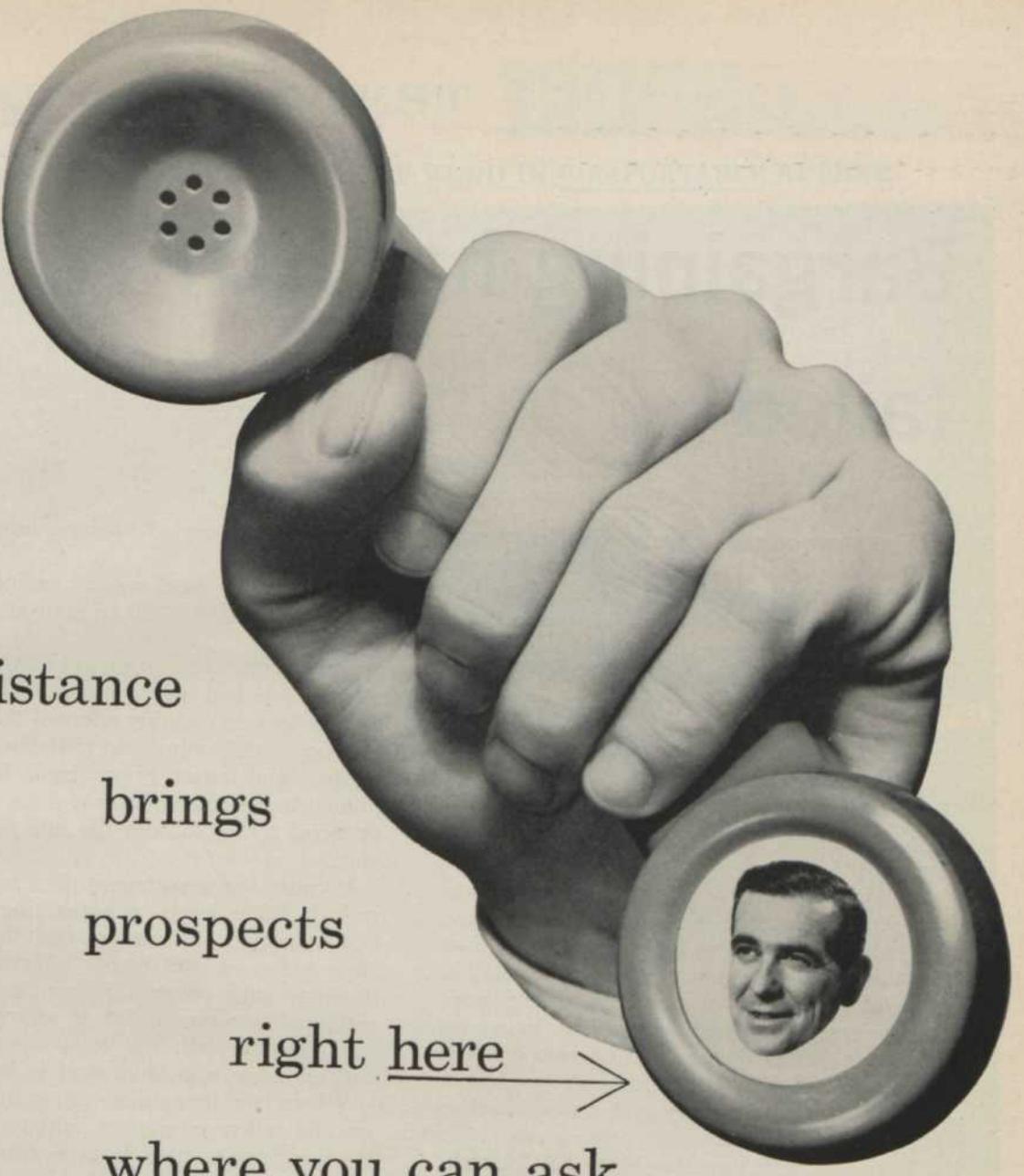
During the first half of 1959 steel production averaged about 10.7 million tons a month. It was 10.5 million tons before the recession. Anticipation of the steel strike was reported to have led to considerable inventory accumulation in the first half of 1959.

Despite many symptoms of current economic strength, the steel strike can affect the timing of the recovery and its speed. If inventories are badly depleted when the steel strike ends, steel and other affected industries will have to produce enough to meet current demands, plus an amount required to re-establish inventories to normal levels. Steel production would reach a rate which could not be sustained.

If this pattern should develop, the affected businesses would have to watch their rate of operations carefully to make sure they do not reach unsustainable levels. Such an overexpansion could contribute to a subsequent recession. This may be avoided by rebuilding inventories cautiously instead of attempting to restore them too quickly. Such a go-slow policy may cause loss of some sales or force minor interruptions in production, but the alternative is a wider swing in production with consequent larger costs.

Settlement terms also are important. A noninflationary settlement will contribute to sound long-term growth. An inflationary settlement could bring a somewhat larger short-term rise in economic activity. But the price would be a larger recession later on.

—JULES BACKMAN
New York University



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Bargaining has NOT failed

IF A STEELWORKER, or anybody else, wants to swap his old automobile for a new one, he bargains with an automobile dealer. If he demands too much or the dealer offers too little, no swap is made. It may be made later when need for transportation on one side or need of sales on the other brings acceptance of terms previously refused.

This sort of bargaining, which may be seen every day in any market where one chooses to look, apparently escapes the notice of those who clamor for federal intervention in steel strikes. They insist that collective bargaining broke down in steel because an agreement was not readily reached. If the present labor laws are intended to compel quick agreement, then the law has broken down. If federal legislation is expected to force people to be more reasonable, wiser, less selfish, or willing to accept proposals which they regard as unfair, those who passed it were either naive or careless in naming the process they set up "collective bargaining."

In true bargaining either party has the right to say no as long as he is able. When the government abridges this right and sets up terms of agreement, it replaces bargaining with something else. John L. Lewis has called the substitute "compulsory arbitration," which may be as good a name as any.

The sweeping study of the steel industry which Secretary of Labor Mitchell is making must, therefore, correct its target. The Secretary can't find out why collective bargaining has failed to work in the steel industry. Collective bargaining has not really been tried there since World War II.

The Secretary can find out why compulsory arbitration has failed to work. That has been used four times—three times officially; once,

according to accepted folklore, informally but firmly.

As a result, steel wages, excluding fringe benefits, averaged \$3.10 an hour at the start of the strike.

Because increases granted in the steel settlement have had government sanction, other unions have reasonably adopted them as their own acceptable minimum settlement.

Steel and other prices have been driven higher, to the discomfiture of those government agencies trying to hold the line against inflation.

Because the government does not yet intercede in other kinds of bargaining, both steel employes and steelmakers find the results of their enforced settlements affecting all their dealings with others—the employe when he calls on the auto dealer or anyone else who has goods to sell; the companies when they call on those who have steel to buy.

Where true bargaining still exists, both buyers and sellers retain the right to say no. The steel companies have been hearing that word more often from former foreign customers as well as those at home. Steel exports decline, steel imports grow as foreign makers demonstrate their ability to ship steel to this country and sell it sometimes as much as \$40 a ton cheaper than an American mill in the same town can supply it.

Steel companies pledged that, permitted an opportunity to bargain, they would take the first step toward changing the present trend. They would hold prices at present levels.

Those with a real interest in the public welfare can't do better than let them try.

The alternative, "compulsory arbitration," has had four chances to prove that—in any sense of the word—it is no bargain.

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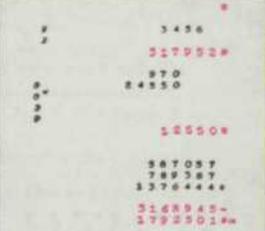
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